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ABSTRACT

Nine units on small business management are provided in this curriculum guide designed for use in an advanced course for secondary and postsecondary students who are interested in beginning a small business venture, have some prior business knowledge, and have a specific business in mind. Unit topics include marketing, location, systems and records, promotion, pricing, business policies and relationships, organizational structure, and financing a business. At the beginning of each unit is a summary page containing a synopsis of the unit's content, student learning objectives, student project work, teaching strategies, teacher preparation required, mini-problems, and references. Following the summary page of each unit are teacher and student materials. The teacher materials provide guidelines for presentation of instructional materials, including lecture and discussion notes, suggestions for conducting class activities, recommended questions to be asked by the teacher to confirm students' understanding, and student project instructions. The student materials are in the form of information sheets, worksheets, case study materials, interview forms, and project instructions. A glossary of financial terms concludes the guide. (JH)

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VOLUME II

SOMETHING VENTURED, SOMETHING GAINED
AN ADVANCED CURRICULUM FOR SMALL BUSINESS MANAGEMENT

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Nancy L. Holt
Acting Project Director

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INTRODUCTION TO THE TEACHER

PURPOSE OF THE CURRICULUM

"Something Ventured, Something Gained" is intended as an advanced course for secondary and post-secondary students who are interested in beginning a small business venture, have some prior business knowledge through courses or experience, and have a specific business in mind. The curriculum is designed to provide such students with an in-depth view of the skill areas and business principles needed to start up and operate a small business. The curriculum content and the case problems contained in these materials have been constructed to provide students with examples of many different types of business situations. Each unit also contains a student project ("It's Your Business") which is designed to help students make plans for the start of their own respective businesses based on timely and appropriately local information.

INTENDED OUTCOMES

Students completing "Something Ventured, Something Gained" should acquire detailed, practical information with respect to the requirements for running their particular business in terms of business and personal skills; the types of outside expertise they will need to obtain when they start their own business; and the contacts they will need to make when they are in business, e.g., vendors. The curriculum has been designed to provide students with structured decision-making techniques essential to the day-by-day operation of a small business venture, where the owner must rely primarily on his or her judgment for the way in which the business should be run.

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Each unit of the curriculum is prefaced by a statement of the learning objectives to be attained, which serve as a guide in assessing student performance throughout the course. If desired, the learning objectives may be used as guidelines for constructing tests or other evaluation instruments. Student projects are also intended to serve as a basis for assessing the extent to which students have accomplished the objectives of the curriculum.

TEACHER REQUIREMENTS

Although "Something Ventured, Something Gained" provides virtually all of the teacher and student materials required to teach the course, it is highly recommended that instructors have a background in business education. Overall, a business background provides teachers with a storehouse of examples and descriptive material which are useful when additional explanation or illustration of points in the curriculum is called for. Prior knowledge of business subjects such as accounting, marketing, and business management will allow instructors to use the materials to their fullest. In addition, a business background should be helpful in assisting students to identify sources of information which will be needed to complete the student projects.

ORGANIZATION OF THE CURRICULUM

"Something Ventured, Something Gained" is part of a four-volume series on entrepreneurship:

Volume I,	Minding Your Own Small Business: An Introductory Curriculum for Small Business Management
Volume II,	Something Ventured, Something Gained: An Advanced Curriculum for Small Business Management
Volume III,	Location Decisions, a simulation to be used in conjunction with Voluems I and II.
Volume IV,	Mini-Problems in Entrepreneurship, a resource book of individual and class activities focussing on "basic skills" (ethics, communication skills, problem solving, record keeping, and self-assessment) and on the special problems of women and minority entrepreneurs. It is also used in conjunction with Volumes I and II.

The units have been structured in a building block fashion: there is an informational continuity from unit to unit. It is recommended that the units be taught in the order in which they appear.

The pages are numbered consecutively from beginning to end, with a roman numeral prefix indicating the unit and a "T" or an "S" to distinguish teacher materials from student materials.

The volume entitled "Something Ventured, Something Gained" contains the core curriculum materials, comprising teacher pages and student pages. At the beginning of each unit is a summary page, containing:

- A synoposis of the unit's content;
- Student learning objectives;

- Student project work;
- Teaching strategies for each part of the unit, e.g., case study, class discussion;
- Preparation required for each part of the unit, e.g., duplication of student materials, arrangements for a guest speaker;
- Mini-problems from Volume IV recommended for use with this unit; and
- References for further study.

Teacher materials include complete guidelines for presentation of instructional materials, including lecture and discussion notes, suggestions for conducting class activities, recommended questions to confirm and extend students' understanding of the materials and student project instructions. They are arranged in numbered paragraphs for classroom use.

Student materials are in the form of information sheets, worksheets, case study materials, interview forms, project instructions, and others. Note-taking in class is required. One set of student materials, to be duplicated by the teachers in the number of copies needed, is placed directly following the teacher pages to which they correspond in the curriculum.

The student projects in each unit of the curriculum allow students to apply what they have learned to the specific circumstances of the businesses they are planning. A first step in the process is the choice of an advisor, the owner of a similar business in the community, to whom the student turns throughout the course for information and guidance. Worksheets and other materials needed by students in their efforts to plan their businesses are provided, as are complete teacher instructions. In most units, the student project is included in the section entitled, "It's Your Business," in others, the project is incorporated throughout the unit.

SUMMARY OF CURRICULUM CONTENT

"Something Ventured, Something Gained" offers students an opportunity to gain an in-depth practical view of the knowledge and skills they need to manage the small businesses they intend to start.

Unit I: Setting Up Your Business

The first unit focuses on establishing the student's specific area of business interest, selecting an advisor, and understanding how basic decisions and practices may affect a business' chances for survival and growth.

Unit II: Marketing

This unit introduces students to the principles and techniques of marketing as they relate to the needs of a small business. These include the techniques of marketing research, identifying consumers and matching their needs with the products or services of a business, and identifying the competition. Students then carry out necessary research to identify the consumers, products or services, and competition for their project businesses.

Unit III: Location

This unit is designed to help students identify the most advantageous location for various businesses through informed decision-making. The major part of the unit is a full-scale simulation of the factors involved in choosing an appropriate location for three retail businesses (the simulation game materials are contained in Volume III). Students apply the information gathering techniques they learned in the simulation to selecting locations for their project businesses.

Unit IV: Promotion

This unit presents techniques for selling goods and services in a small business: advertising, personal sales and sales promotion, and community relations. The material is tailored to the requirements and constraints of a small business operation. Students develop plans for a comprehensive promotional compaign that addresses the needs of their project businesses.

Unit V: Systems and Records

The fifth unit provides students with technical knowledge and understanding of the mechanisms for documenting inventory, revenues and expenditures, and personnel records. The materials constitute a detailed guide for in-class instruction, with standard forms to be completed by students. The in-class lessons are reinforced by an additional case study to be done out of class and a student project in which students decide on a certain policy for their businesses and devise business forms to reflect their particular information needs.

Unit VI: Pricing

Unit VI focuses on pricing strategies, policies, and considerations which entrepreneurs must be aware of setting prices, and points out the impact of economical influences on small business pricing policies. Break-even analysis is taught. The student project consists of determining the effect of a variety of factors on students' project businesses.

Unit VII: Business Policies and Relationships

Unit VII provides students with the basic concepts, principles, and general policy considerations for dealing with customers, personnel and vendors. Employer/employee relations, including interviewing and employment obligations, are covered. Students develop policies that respond to the needs of their project businesses.

Unit VIII: Organizational Structure

The unit presents the different ways that businesses can be organized: partnership, corporation, and sole proprietorship; and different types of businesses: retail, wholesale, manufacture, service, or a combination of these; and special sections of franchises and licensing. In the process of identifying legal requirements for their project businesses, students may consult lawyers and accountants.

Unit IX: Financing Your Business

Unit IX requires students to use the knowledge they have gained thus far to prepare loan application documents. When students complete the unit they will have a firm understanding of the major considerations in choosing a bank, talking with a loan officer, describing a potential business in detail, and completing the necessary forms to apply for a start-up business loan. The unit contains lessons for in-class use, complete with the necessary forms, and an out-of-class case study to reinforce skills in business math and forms completion. The student project consists of obtaining and completing loan application forms from a local bank; students may submit the application and obtain a loan if they choose to.

FIELD TEST AND REVIEW

These instructional materials on entrepreneurship are based on previous curriculum materials developed by Athena Corporation and Del Green Associates. After an initial review by business owners, secondary and post-secondary teachers, and the Small Business Administration, the original materials were revised by project staff and field tested.

"Something Ventured, Something Gained" was taught at Denver Community College/North Campus, Denver, Colorado, and at the North Orange County Regional Occupational Program in Anaheim, California; as some of the activities were also included in the companion curriculum, "Minding Your Own Small Business," the advanced introductory curriculum can be said to have been partially tested at Liverpool High School, Liverpool, New York, and Ramapo Senior High School in Spring Valley, New York, as well.

Given the small number of field test sites, results must necessarily be tentative. Nevertheless, the average learner gains in the experimental classes was 22% in the two post-secondary schools (33% and 15%) from pre-test to post-test. Due to administrative error post-tests were not given to students in one of the control classes; the learner gain in the other school's control class was 9%. Findings would therefore seem to indicate significant learner gain from use of "Something Ventured, Something Gained."

In addition to the careful examination of the curriculum by field test teachers, a thorough final review was also conducted by teachers and business owners. A number of their recommendations were incorporated into the final version of the materials.

UNIT I: SETTING UP YOUR BUSINESS

SUMMARY: Starting with a review of business concepts and an introduction to the course contents, factors resulting in success or failure of small businesses are explored. The interest and motivation of class members as entrepreneurs are assured by their ongoing course project, their "own" small business.

STUDENT LEARNING OBJECTIVES:

- Understand course structure, scope, and goals, and own responsibilities.
- Explain major factors leading to success or failure in small businesses.
- Obtain approval of project--business choice and advisor.

STUDENT PROJECT WORK:

- Select business and decide on "partnership" (team approach) vs. "sole proprietorship" (individual) approach.
- Interview potential advisor(s) and select advisor.
- Submit justification for and obtain instructor's approval of project and advisor.

TEACHING STRATEGIES:

Part A: "Something Ventured..." Overview: lecture, board exercise, discussion, information sheet.

Part B: Success and Failure: discussion, case studies.

Part C: Problem Solving: class exercise.

Part D: It's Your Business (I): students present, discuss projects.

MATERIALS PREPARATION:

Part A: Duplicate* "Guidelines for Choosing Advisors," "Interview Form," and "Advisor Consent Form" (two per student).

Part B: Duplicate "Gould's Specialties," "A Couple of Kids..." and "The Mortality or Survival..."; review student preliminary choices.

Part C: Duplicate "The Six Steps of Decision Making."

* Throughout, duplicate one copy for each class member, unless otherwise noted.

Part D: Meet briefly with student project groups to approve project and advisor. Meet with all students and advisors to discuss course, projects, and responsibilities of each (optional) (no student materials).

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

1. "Bob Johnson's Story." The story focusses on Bob Johnson, who owns a radio and tape recorder business, and his friend Sam, who owns a gas station, and describes what they have learned about race and business.

2. "A Family Business." When a married couple begins to have personal problems in the business they own together, both their marriage and their business are in trouble.

Other Mini-Problems:

4. "Spiral Notebooks." The problem calls for students to calculate two different profit figures for notebooks: at the regular price and the sale price.

8. "Choosing a Course." Students are asked to decide systematically which of two imaginary courses, both of which are attractive, they would sign up for.

11. "Ned Muller." Ned is torn between his loyalty to Rudy Painter, a longtime supplier to Ned's thermometer factory, and the attraction of lower prices from other suppliers.

14. "Qualifications." Students describe their qualifications, present and future, for three occupations.

39. "Nick Reggio." Students analyze the case of Nick Reggio, the owner of a camera store, who went bankrupt because he tried to push himself past the limits of his physical and emotional endurance.

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Mayer, Kurt B. *The First Two Years: Problems of Small Firm Growth and Survival*, Washington, D.C.: Small Business Administration, 1961.

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PART A: "SOMETHING VENTURED..."

OVERVIEW

INTRODUCTION

1. Go over each unit, explaining the cumulative nature of the materials and the value of the project. Tell students that the major goal of the curriculum is awareness of and competence in the steps needed to start their own business.

2. Explain the project approach: as each unit's material is covered in class, students will apply what they are learning to a business of their choice. They will make the plans and decisions for their business as if they were actually starting one--and, in fact, the course provides practice for doing so. According to their preference, students may "start" a business as sole proprietors (alone) or as partners (with one or two other students). As part of the project approach, each business will enlist the help of a person in the community who currently owns the same kind of business.

3. Ask students if they know which business they will choose.

   If they are unsure, the following questions may help:

   - What kind of businesses have you had experience with?
   - Are you most interested in retail, wholesale, service, or manufacturing businesses?
   - What kind of business would be most useful for you to learn about?
   - If you are unsure, do you know a person who would make an excellent business advisor (e.g., reach the choice of business through the advisor)?

4. As students discuss their choices, ask them to explain why they chose as they did. This may help to clarify the issues for undecided students and point up any unrealistic reasons for choosing a business that some students may have.

5. Ask students to decide if they will "go into business" as sole proprietor, in a partnership, or by incorporating. Some of the issues involved in the choice include:

- Students who intend to start either form of business in the future should choose it for their project now.

- Students who have many other demands on their time may prefer a partnership as a means of sharing the work.

- Students who are certain of the kind of business they are preparing for should choose a sole proprietorship, unless they are planning on a partnership and there is another student with the same choice.

- Students who do not have strong preferences about the kind of business they want may ask to be included as partners in someone else's business.

It may be helpful to list tentative businesses on the board with student's names.

6. Tell students that they should be prepared to announce their final choice of business and whether it is a sole proprietorship or partnership (with names of others), at the next class as a Project Report. This information should be handed in at that time in written form, along with an explanation of their choice.

7. Explain to students that the preceding Project Report is the first in a series. They should maintain a folder or notebook to keep them after they are returned, since later Project Reports will build on earlier ones.

CATEGORIZING BUSINESSES

1. Explain to students that there are several ways to categorize businesses:

   - Types: manufacturing, wholesale, retail, service
   - Organizational structures: proprietorship, partnership, corporation, franchise
   - Intensity: capital intense, labor intense, knowledge intense
   - Output: products services

2. Ask them to define and provide examples of each. (Organizational structures and intensity will be discussed in detail in Unit VIII. This is meant as a quick review.)

3. (Optional) Ask students to list on the board businesses with which they have had experience, classified as follows:

	Proprietorship	Partnership	Corporation	Franchise
Manufacturing				
Wholesale				
Retail				
Service				

This exercise should serve to focus on the relevant experiences of students and help students use each other as resources. (If students feel this is valuable information, the instructor could ask a student to copy it, then duplicate it and distribute it to students.)

CHOICE OF BUSINESS ADVISORS

1. Explain why advisors are a necessity in completing the class project for information from an active businessperson specific to their project, an opportunity to be involved with an actual small business, and feedback on the appropriateness of their work on the class project. Potential advisors need to be interviewed informally for four reasons:

    - to allow students to evaluate their business knowledge;
    - to allow students to estimate their willingness to advise;
    - to determine the student's and advisor's ability to get along with each other; and
    - to give the advisor a clear idea of what will be asked of him or her.

2. Distribute copies of the following to each student:

    "Guidelines for Advisors"
    "Interview Form"
    "Advisor Consent Form" (Two per student: one for student, one for advisor)

3. Allow students time to read "Guidelines for Advisors." Explain that their choice should be governed by the factors in "Guidelines..." One advisor is needed for each project business (e.g., each proprietorship or partnership). Classmates may be able to suggest to each other the names of potential advisors. Partners obtain an advisor jointly.

4. Explain procedures

(a) Students need to meet with business owners at the convenience of both parties. The first contact (in person or by phone) should establish briefly:

- Who the student is;
- Why the businessperson is being contacted ("To learn about the business for a class in small business");
- The length of the interview (15 to 30 minutes).

The possibility of the businessperson serving as an advisor should not be mentioned to the owner, leaving the option open for the student to pursue near the end of the interview when he or she can decide if this person would make a good advisor.

(b) At the interview, the student (or students in a partnership) can use the Interview Form as a guide. Allow class time to go over the form first, pointing out:

- If business owners are unwilling to answer, or if the interview is too long for them, some questions should be omitted, and
- AFTER QUESTION 21, they need to make a decision:
  - If they do not want the businessperson to be their advisor, the student should thank him or her for the interview;
  - If they want the businessperson to be their advisor, they should explain that they will need an advisor whose role will involve periodic contacts during the course for information on his or her business and occasional feedback on the student's project work.
- If the person is willing to serve as an advisor, the consent form should be completed and a copy made for the advisor. The advisor should be thanked for his or her cooperation.

(c) Review the consent form in class, emphasizing the responsibilities of students and advisors.

5. As an alternative to interviewing entrepreneurs, students can choose to "shadow" an entrepreneur for half a day with the business owner's permission. The student should not ask any questions during the time the person is being "shadowed," but take notes on the aspects of the business observed. This encourages students to observe and draw their own conclusions and should lead to more relevant questions later.

At the end of the observation period, the student should ask a limited number of questions of the entrepreneur. Ten questions should be sufficient. They can be based on the student's observations or drawn from the Interview Form.

This procedure should end with determination of whether the businessperson is to be an advisor (see 4(b) above).

6. PROJECT REPORT Students hand in the completed interview forms (or "shadowing" observations) with the advisor's Consent Form. The forms should be accompanied by a brief written justification of their choice of business and advisor. They should give approximately three good reasons for each. Possible reasons for PROJECT: long term interest, experience in similar business, contacts with suppliers in that business, perceived need for a business of that type, etc.; for ADVISOR: see "Guidelines for Advisors" and look for evidence of qualities in interview or "shadowing" notes.

GUIDELINES FOR CHOOSING ADVISORS

What to look for:

- Interest, willingness to explain his or her business.
- In business similar to your project business (same product or service, same organizational structure)

How to find an advisor:

- Ask fellow students, relatives, friends
- Discuss with businesspersons who are friends

What to listen for:

- Broad business knowledge
- Explains his or her own business clearly and openly
- Compatibility (is at ease with you, answers your questions)
- Gives time for interview willingly (may thus be willing to give additional time as advisor)

Presenting your case:

- First conduct interview and decide whether the businessperson would be an appropriate advisor, then
- "Sell" yourself as an advisee, your knowledge and experience, your reason for enrolling in the course, your objectives
- Explain the course
- Explain the advisor's role and time commitment, using the Consent Form

Tying it up:

- With advisor, fill in details of the Consent Form as you agree on them, including your adivsor's and your own responsibilities
- Sign, and have advisor sign
- Make a copy for the advisor
- Thank the advisor for his or her time and interest

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INTERVIEW FORM

Student: Arrange ahead. Say who you are and that you are there for a school assignment. Keep the interview brief (i.e., half hour maximum).

Interviewer ______________

Business Owner ______________

Business ______________

Phone ______________

Date of Interview ______________

OPENING

1. When did you open this business?

2. Was it a new business or did you buy an existing one?

3. Why did you go into business?

4. What particular line or price-level of goods/services do you sell?

5. What made you choose this particular line of business?

6. How long did you spend in planning to open this business? What plans did you make?

7. Did you seek advice from any of the following?

   a. Suppliers
   b. Bankers
   c. Businesspeople in noncompeting lines?
   d. Businesspeople in competing lines?
   e. Family? Friends?
   f. Government agency?
   g. Others? ______________________________

8. Who gave you the best advice? What was it?

BACKGROUND

9. Have you owned or managed other businesses?

10. Did you have any special training for a career in business?

11. Ask if applicable: How has being (female/a member of a minority group) affected your business?

LOCATION

12. Why did you locate here?

13. Is it a good location? Why?

BUSINESS PRACTICES

14. What price line of (goods/services) do you carry--low, average and/or high?

15. Who are your customers (e.g., children, men, women, high-income, etc.)?

16. What geographic area do they come from?

ADVERTISING

17. How did you advertise at first? Now?

ORGANIZATION

18. Is this business incorporated, or is it a sole proprietorship, franchise, or partnership? Why did you choose this form of organization?

19. How many people do you employ?

20. What do you feel is most important to your success?

FINANCING

21. Was funding a major difficulty in starting your business? If so, in what way?

END HERE, OR CONTINUE (IF PERSON IS TO BE INVITED TO BE AN ADVISOR)

ADVISING

22. Have you advised others on going into business?

23. Would you be willing to serve as my advisor for my project if we can agree on the details?

(If yes, discuss the course and what will be asked of the advisor, go over the consent agreement, completing all details, and give one copy to the business owner.)

(If no, thank owner for his or her time and cooperation. You will need to contact a second business owner and obtain consent. Contact your instructor if you have difficulties.)

ADVISOR CONSENT FORM

(Fill out 2 copies; advisor keeps one.) Date: ____________________

I hereby agree to serve as advisor to ____________________________

from ____________ to ____________, as s/he attends the course on

starting a small business, ____________________________________ at

____________________________________ (school).

I have been fully informed of the goals of the course and extent of my participation. As an advisor, I agree to:

- Provide information and guidance on specific issues relating to my type of business, and
- Allow the student(s) to observe my business.

The student(s) agree(s) to:

- Make any appointments in advance and keep them
- Come to advisor prepared in order not to waste time, and
- Keep confidential any information that the advisor considers confidential.

Optionally, the advisor agrees to:

- Speak to the class
- Attend a meeting of business advisors
- Other: ____

Optionally, the student agrees to:

- Spend time, as a volunteer, in the business
- Copy some of the class materials for the advisor
- Other: ____

The advisor and student(s) further agree that the advisor need not answer questions of a confidential nature if he or she so chooses.

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ADVISOR CONSENT FORM (Continued)

STUDENT(S):
(Names and
phone numers)

ADVISOR:

TITLE:

BUSINESS:

BUSINESS ADDRESS:

PHONE:

If you have any questions, contact the class instructor:

NAME:

PHONE:

PART B: SUCCESS AND FAILURE

1. Ask the class what factors they think account for success and failure in small businesses. Explain that success and failure are in many ways controllable and that you will be exploring some of the factors through two case studies.

2. Failure: Divide the class into small groups, and distribute copies of "Gould's Specialties" (one per student). The groups should read the case study and work together to answer the questions at the end.

   Discuss the students' responses to the questions.

   - Question 1: What were Gould's goals for his store? How carefully thought out were they? Was "Gould's Specialties" a reasonable way to achieve them?

     Mr. Gould's goals were to escape from his factory job, to have a business that was his own and to make a comfortable living.

     They were not realistic in the sense that Gould's Specialties could not possibly support him, because a combination of external factors (location, parking problem, competition of the supermarket, limited product line, insufficient market) destined it to failure.

   - Question 2: What personal characteristics and resources did Gould have which could have made a success of his business?

     Mr. Gould's intelligence, friendly personality, motivation, optimism, sound business practices, experience as a production manager, and financial reserves increased his chances for success.

   - Question 3: What were the factors (both personal and external) which caused Gould's Specialties to fail? Which factor was the most serious one?

     Personal factors--overoptimism, impatience, tendency to blame other people and "bad luck" for his failures, faulty decision making (e.g., there was no market for bulk cookies, bad location, poor market research). You may want to read the following paragraphs out loud during the discussion. They are a direct quotation from Mr. Gould and present a clear and fair evaluation of reasons leading to closure of this business.

   "Gould's Specialties failed for a combination of reasons, but, to put it bluntly, I lost my shirt. Not only were we not making money, we were losing it. As I look back, I can't figure how the dickens I saw a business in selling cookies in the first place. I was fed up with my other work and just wanted a business of my own. The place was for sale and it seemed to me that there was a market for bulk cookies. Now I know better....

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"Everything was against me. It never paid from the beginning and just got worse. The location, parking problem, closing of the department store down the street, and competition of the supermarket were all factors in the failure. Mostly, however, a cookie specialty store just isn't the best business in the world. People around here don't eat that many cookies...

"The location hurt me the most. I could not have found a worse place to open if I tried. All kinds of trucks and cars were always parked in front of the place, and there were too many other grocery stores with package cookies nearby. Another location might have enabled me to make some money, but I don't think it would have been enough. No amount of capital would really have helped in the long run because the cookie business is not good. I could have tried to sell something besides cookies, but the place was too small, and the competition in other lines, such as groceries, was even greater than with cookies. I realized early that the business would flop, and I was lucky to get out as soon as I did before I lost more money. The net profit figures I was aiming for were just never there to get.

3. Success: Distribute "A Couple of Kids..." (one per student), allowing students sufficient time to read the case study silently.

   Discuss the Eisenbergs and their business, covering the following points:

   a. What were their goals (personal and/or business)? Primarily, a creativ outlet, and challenge of building a business; profit goal was secondary.

   b. Were their goals realistic, i.e., attainable, time-related, concrete and measureable? Yes.

   c. In the eyes of the owners, bank, and community, is the business a success? Do the definitions of success differ? Yes, but the community was not always pleased with their "unorthodox" methods.

   d. What decisions could have caused problems? Frequent name changes, sudden growth, productive expansion, change from craftspersons to retailers and wholesalers.

   e. What resources and personal characteristics of the Eisenbergs helped them succeed in their business venture? Determination, originality, expertise, management skills, dedication, realistic expectations, drive and enthusiasm.

4. Discuss factors resulting in success or failure. Have students list either reasons for failure or success on the board, as drawn from the case studies (i.e., for failure, faulty location, disregard of competition, inadequate capital resources, overindebtedness, inept merchandising policies, careless credit policies, organizational errors, lack of technical know-how, personality defects, or absence of sufficient perseverance in the face of difficulties).

It should not be assumed, however, that all factors are equally important. Overall evaluation suggests that some elements are more basic than other. They fall into three major categories: management skills, financing, and personal factors.

From the "failure" perspective:

A comparison of causes for failure with reasons for success shows that certain conditions are more likely to have fatal effects on a business venture than others. Undercapitalization, managerial incompetence, and personality defects appear to doom an enterprise and cannot usually be compensated for by other assets.

Finally, there are some errors which are not necessarily fatal. In this category belong such features as an unfavorable location, sloppy record keeping, bad housekeeping, and lack of advance planning for opening and developing the business. Unlike capital and competence, one or more of these factors can be present but can nevertheless be overcome by other elements like hard work, managerial know-how, and positive personality traits.

From the "success" perspective:

Managerial know-how: One of the most important factors in business survival and success. Managerial know-how includes such aspects of the business operation as purchasing, inventory and quality-control, pricing, salesmanship, display of merchandise, advertising, credit policies, record keeping, control of overhead, and employment practices. Previous business experience is helpful, particularly as an owner of a similar business.

Adequate capital resources: Unless a business is adequately capitalized it cannot survive. Capital must be sufficient to establish the business in a proper location, to buy merchandise independently at the best price, and to weather that "one major error."

Personality traits: Managerial know-how is all the more valuable if it is supplemented by certain personality traits: determination and tenacity, seriousness and enthusiasm, dedication, flexibility, enjoyment of work, imagination, responsibility, stamina. Realistic expectations, combined with these traits will enable owners to get through temporary setbacks.

5. Distribute "The Mortality or Survival of Small Business" for students to read as a summary of the dicussion.

Additional discussion questions:

a. Can a person's chances of success in small business be predicted?

b. Is profit the main reward for being in business for yourself?

c. What is the current image of small business?

IN-CLASS CASE STUDY

GOULD'S SPECIALTIES

Mark Gould is 57 years old. A high school graduate, Gould appears quite intelligent. He dresses neatly and has a friendly personality. He has just gone out of business.

After having spent most of his adult life working for various jewelry manufacturing firms, mostly in a supervisory capacity, he decided he was unhappy with his job. He wasn't "getting anywhere" in the jewelry business. "I've done everything, including production manager," he said about his career, "and I could never relax. The older I got, the longer my hours were. I was doing everything, and I was under such tension it just ruined my nervous system. So I decided to do something where I could relax and make a little money for myself."

One day, he saw an ad in the newspaper about a retail cookie business for sale. The idea of running a cookie store appealed to him. He went out to see the store and talk to the present owners of the business and within two days he signed the lease to rent the building. For capital, he used his savings.

"Gould's Specialties" was located on a heavily traveled street in a neighborhood of lower-income homes and apartments, light industry, and some stores. He thought the population density, coupled with the fact that many of the residents didn't have cars and therefore would find it difficult to do their shopping downtown, would contribute to his business success. He wasn't particularly worried about the fact that parking was available only at meters, or that delivery trucks had to park in front of his store, or that there was a small supermarket 200 yards up the street. He knew that the interior of his store was clean, neat, and well lit, that his prices were low (especially for cookies in bulk), and that a lot of people went past his store every day.

So Gould had a sign painted on his storefront (which was hard to see if you were driving past the store), spent $5,000 on new cookie containers, a cash register, and an impressive line of cookies, and opened for business.

He started losing money almost immediately, but knowing that it was important to wait out that initial slow period, he dipped further into his savings. Open from 8:00 a.m. to 7:00 p.m. (to be available to the going-to-work crowd and the going-home crowd), on a good day he had about 30 customers who bought an average of $1.85 worth of merchandise. On a bad day, he had as few as 10 customers.

When his business didn't start to pick up after six months of operation, Gould began to do some thinking. "Come to think of it," he mused, "I had more customers before the department store down the street closed."

He spent some money on newspaper ads, but didn't see much improvement. He ran a sale, advertising a 50% discount on all purchases over $5.00. Although more customers came in, Gould lost more money with the big discount. He hired neighborhood kids to distribute circulars around the neighborhood advertising his store (and paid them in cookies), leading to some improvement, but not much. Even repainting the outside of his store from white to tan with dark brown spots (like a huge chocolate chip cookie!) did not increase sales.

After a year in business, Mark Gould had gone through $20,000 of his savings for start-up expenses, inventory replacements, operating expenses, and money to live on in the meantime. He finally gave up, and has sold his business--at a loss.

QUESTIONS

1. What were Gould's goals for his store? How carefully thought out were they? Was "Gould's Specialties" a reasonable way to achieve them?

2. What personal characteristics and resources did Gould have which could have made a success of his business?

3. What were the factors (both personal and external) which caused "Gould's Specialties" to fail? Which factor was the most serious one?

IN-CLASS CASE STUDY

A COUPLE OF KIDS WITH A GOOD IDEA

Five years ago, Hawaiians Lew and Judy Eisenberg began handmaking sandals in their Ala Wai Harbor houseboat and selling them to friends in order to supplement his Navy salary. Today, their burgeoning enterprise, Seafarer, Inc., turns out handmade sandals, handbags, clothing, and other leather goods by the carload and sells them in three Seafarer shops in Honolulu.

Blue Jeaned Craftsmen

Although the little company's growth has been the result of hard-working entrepreneurship, Seafarer is not exactly a run-of-the-mill business operation, and the Eisenbergs aren't exactly typical entrepreneurs. For one thing, after running their own company for four years, Lew and Judy Eisenberg are now only 25 and 26 years old. Most of their 30 employees are young too--bearded and blue-jeaned craftsmen who work leather to the sound of rock music, and clearly enjoy their work.

That is another unusual feature of the business. Like many young people, the Eisenbergs say they are more interested in the creative opportunities and the challenge of building the business than in profit, and their style of doing business bears out the claim. Their workshop has the informal, enthusiastic air of a hobbycraft class rather than a factory, and their prices are kept considerably lower than those of other leather goods firms.

Despite the casual atmosphere at Seafarer, on the management side it is well structured and systematic. This is the province of Fran Bush (Judy's father), a former store manager for a midwestern discount chain, who joined Seafarer two years ago. He has set up procedures in inventory control, merchandising, personnel, and other areas, and acts as business manager for the company.

Still another family member joined the company six months ago. Geoff Bush, formerly an account executive for a Honolulu advertising agency, has taken over handling of marketing and advertising for Seafarer, as well as management of the downtown store.

Salty Sandals

Lew and Judy remain the creative sparkplugs of Seafarer, generating new ideas for expanding the merchandise line and guiding development of the business. They made the transition from hobbyists to entrepreneurship at the urging of friends who had purchased those first experimental sandals. In 1967, Lew leased a tiny (77 square feet) store space in the International Marketplace and set up a shop, Salty Sandals, offering custom-made and ready-to-wear sandals.

Right from the beginning it was a winner, and the Eisenbergs found themselves working late into the night on their houseboat to keep up with the orders for footwear, wallets, and belts. When the boat could no longer contain the activity, they moved into a house. But neighbors were soon complaining about the hammering noises at night, and once again the workshop was moved--this time to another retail shop along with the workshop.

It was at about this time that the name Salty Sandals was dropped (people kept reading it "Sally Sandals," says Judy) and Seafarer was adopted. "We thought the new name was fitting," explains Lew, "because our business got started on a boat, because we both like the sea, and because much of the leather we use was the kind used in the rigging of old sailing ships."

The first big break came when Lew persuaded Liberty House to carry Seafarer bags and belts, featuring them in a special promotion in all of its stores. The orders began pouring in, and it was all Lew and Judy and their few hired craftsmen could do to keep up with the mushrooming demand.

Ala Moana Move

In 1969 Judy and Lew took a chance and applied for store space which was opening up in the Ala Moana Shopping Center, with the idea of keeping the tiny store as a workshop. As soon as their application went through, they called Fran Bush in Minneapolis and invited him to move to Honolulu as their full-time business manager. (Fran says it took him about two minutes to decide to quite his discount store job and to accept their offer!)

The new Ala Moana store generated so much business that the workshop had to be moved to larger quarters above a Chinese restaurant. It was conveniently close to the Ala Moana Center, but after six months the Eisenbergs had to concede that they and their employees were suffering a serious loss of efficiency during the morning hours when the restaurant was cooking onions and garlic for the evening meals.

As a result, last spring the workshop was moved to its present spacious quarters. At the entrance to the factory a small retail shop has been installed as a sales area for leather and leathercraft tools and hardware. Leathercraft hobbyists are rapidly growing in number, and Lew believes Seafarer's is the only shop in Hawaii which specializes in supplying this craft.

Quality Products

Judy believes that even though she and Lew no longer have time to do much of the actual leatherwork, manufacturing improvements they have worked out over the years (plus the fact that they can now afford to buy better leather) add up to a product which is even better than in the days when they were making everything themselves. Every item is still inspected by either Lew or Judy before it leaves the workshop, and in four years only two pieces of merchandise have been returned by unsatisfied customers, she says.

The Eisenbergs say it is this aspect of the business--the quality and imaginativeness of the products--coupled with the challenge of building their own company rather than the drive to boost profits, which motivates them. While their overhead and the cost of leather have risen steadily, prices on most of their products have not been raised in two years. Partly, this has been possible because of increased volume and efficiency, as well as the practice of using bits of leather once discarded as scrap in the small items which have been added to the line. But in a significant way, pricing at Seafarer reflects the Eisenbergs' carefree approach to the business. Says Lew, "We figure we're making a fair enough profit, so why raise prices?"

Nevertheless, the business is growing. Good management coupled with the creative drive of Lew and Judy pushed the little business from a gross in 1970 of $100,000 to $400,000 in 1971. With an additional store and a stronger advertising effort, the volume is expected to pass half a million dollars this year.

It would be wrong to say that success has come easily to Judy and Lew Eisenberg. They work hard--so hard, in fact, that there has been little time in their lives for anything but the leather business since their high school courtship ended in marriage five years ago. But fascination with beautiful leather, with design, and with the challenge of accomplishing the very difficult have been the prime motivators for them.

Success has been a bonus.

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INFORMATION SHEET

THE MORTALITY OR SURVIVAL OF SMALL BUSINESS

For all its appeal, entrepreneurship is a difficult career path. It appears that many small business owners do not possess the required money and skills. The typical firm does not survive more than two years. In 1971, for example, most of the businesses that closed down were small. A detailed study of small businesses, conducted for the Small Business Administration in 1961, showed that half of the businesses studied ceased operations within the first two years.*

Among the primary reasons for failure were the following:

- Poor locations were chosen. Location is particularly important for some service (e.g., hotels) and most retail sales businesses.
- Disregard of competition. For example, some of the grocery stores in the study opened in areas which already had many successful grocery stores.
- Too little money (under capitalization). The businesses did not have enough money to keep going until they established themselves with customers.
- Lack of general management know-how. Businesspersons did not know enough about how to run the business, such as financial planning and control, knowledge of the business itself, knowledge of personnel needs, and ability to analyze the nature of the business and its potential markets.

Businesses which survived and succeeded also showed certain characteristics. The study also revealed some of the factors which contributed to the success of the survivors. These included:

- Persistence and preparation. The successful businesspeople realized that they would not achieve their goals and profits immediately and were prepared, both psychologically and financially, to endure a year or more of losses.
- Ownership experience. Through previous experience in owning their own businesses, many successful owners had learned about the problems of starting a new venture, and had acquired the skills needed to operate one.
- Sufficient money. Sufficient capital is required to begin the business on a firm footing and to survive the start-up period before sales pick up. This money often comes from personal savings.

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* Kurk B. Mayer and Sidney Goldstein, The First Two Years: Small Firm Growth and Survival Problems. Washington, D. C.: Small Business Administration, 1961.

- General managerial know-how. This involves having knowledge and ability in locating the business, sales, advertising, control and planning in order to avoid the problems which plagued the failures.

PART C: MAKING A DECISION

1. Ask students if they think business owners or business employees make more work-related decision? Why? Ask them if there is a difference in the consequences of decisions made by business owners or employees. Why?

2. Explain that since business owners make so many decisions and such consequential ones, it is essential to be able to make them well. One of the reasons so many businesses fail is because their owners do not know how to make careful, well-thought out decisions.

3. Distribute "The Six Steps of Decision Making" to students. Ask them to read it.

4. In the problem below, you may wish to have students work it out entirely on their own or to do the first two steps with them in class, according to the needs of the class. They can complete the problem in class or as a homework assignment.

5. PROBLEM: Choosing a Course. Read the following to students. Imagine that you have room in your schedule next semester for one more course. Let's say that Course A and Course B are both very interesting and you are having a hard time deciding between them.

   Tell students that they are to follow the model in "The Six Steps of Decision Making" to determine how they would make their decision.

6. As a guide for you, the answers are given below.

   Step 1. Define the Problem. Should I take Course A or Course B?

   Step 2. Identify What you Need to Know. Some factors in the choice are:

   a. When the class meets

   b. How good the teacher is

   c. How much homework there is

   d. How interesting the course content is

   e. Whether the course content is helpful to my long-range educational or career goal

   f. How hard a grader the teacher is

Step 3. Decide How to Get the Information. For each factor identified in Step 2:

a. School catalog, handbook, or registrar's office

b. Former students

c. Former students and/or teacher

d. Teacher, then evaluate personally

e. Teacher, then evaluate personally

f. Former students

Step 4. Gather Your Information. Get information from sources identified in Step 3.

Step 5. Weigh the Facts. Note whether each factor is an advantage or a disadvantage for you personally. For example:

		Course A	Course B
a.	Class time:	Okay	Okay
b.	Teacher:	Excellent	Very good
c.	Homework:	A lot	Moderate amount
d.	Course content:	Very interesting	Very interesting
e.	Helpful to goal:	Definitely	Probably
f.	Grading:	Hard	Average

Factors a and d are equal, so they may be put aside. Factor b may also be put aside since both teachers are more than acceptable. The decision therefore rests on factors c, e, and f: these must be weighted in light of current circumstances and future needs.

Step 6. Make Your Decision. Based on the preceding analysis, one can decide to take course A now, course B now, course A now and B later, or course B now and A later.

7. Tell students that this way of making a decision is valuable because it isolates components of the decision so that they can be examined one by one.

8. If your students would benefit from additional problems, you can select one or more of these, make up some yourself, or ask students to propose some.

   - I have two job offers: night manager in a hotel and salesperson in a ritzy clothing store. Which one should I accept (or should I hold out for a better offer)?

   - I have a week's vacation time coming up. Should I stay home or go away?

   - I need a car, and I can get a large American car second-hand or a new small foreign car for the same price. Which should I buy?

9. To make the exercise more difficult, propose problems with many possible solutions:

   - I'd like to find a new place to live and am considering all options: rent a house, buy a house, rent an apartment, buy a condominium, buy a co-op, live by myself, live with roommates, buy a house and advertise for roommates, sublet a house, sublet an apartment, etc.

THE SIX STEPS OF DECISION MAKING

1. Define the Problem

In order to make a decision, you need to understand exactly what the problem is. State it as clearly and as accurately as possible. This is an important step, and shouldn't be rushed.

2. Identify What You Need to Know

Every problem can be subdivided into factors (elements, components, parts). Analyze the problem to identify what factors you need more information about in order to make a decision.

3. Decide How to Get the Information

For each factor you have identified, decide where the information is most likely to be found. This could be in a book or by asking someone who is knowledgeable about what you need to know.

4. Gather Your Information

Make sure the information you gather corresponds to what you need to know and that it is complete enough for your purposes. Make sure it is accurate: did you ask someone for information whose opinion is biased for some reason?

5. Weight the Facts

Although the information you have gathered is true in general, your problem is particular to you. Include now your own preferences and abilities as you consider possible solutions, since a solution that is good for someone else may not be good for you.

6. Make Your Decision

Looking at all the factors (step 2), the information you gathered for each one (step 4), and your individual preferences and abilities (step 5), make the decision that:

- Gives you most of what you want and need
- Gives you least of what you don't want and don't need

If you feel that some of the information you need can't be obtained, this will make your solution less certain. You should take this into account, so that if you find out this information later you will know what to do with it.

PART D: IT'S YOUR BUSINESS (I)

Note: When all students have interviewed, chosen, submitted justification, and gained your approval for their business and advisor, class reporting may be accomplished in the following manner:

1. Discuss with the students the importance of sharing information learned from their projects. This is a first chance to share information gained in the process of interviewing and choosing advisors. Benefits include learning about others' problems and solutions, learning who has chosen businesses similar to one's own, and obtaining suggestions on problems you haven't solved.

2. Students (one per project) take turns in writing the following information on the board. The class can note those of interest to them.

Student Name(s)	Student Project	Advisor's Name	Advisor's Business

3. Suggested discusson questions:
   a. How did you select this business? Did you change your mind in the process?
   b. Did you have any problems locating and obtaining an advisor? (Possible difficulty in scheduling interview, getting all questions answered, explaining advisor's functions, obtaining agreement).
   c. Did advisors have any special advice for persons starting small businesses?
   d. Do advisors have any personality traits in common?
   e. Did advisors have a strong background in business before starting? (Education, work experience.)
   f. Were there problems common to many advisors in opening their businesses?
   g. Do you think an evening meeting with advisors would be helpful?

4. If you and the students feel it would be useful to invite advisors to an evening meeting (or any other time that is most convenient for everyone), set a date within the next two weeks. Each project business should invite its advisor.

A meeting would serve these purposes:

- Provide more information to advisors on their role, and standarize it among project businesses;
- Enable the instructor and the advisors to become acquainted;
- Provide an opportunity for the students and their advisors to get to know each other better;
- Build enthusiasm for and commitment to the project component of the course.

The instructor should emphasize to advisors that their assistance is very much wanted and needed if students are to benefit from their project work as much as possible. Review with the entire group the curriculum units and, if possible, the semester schedule, so that advisors understand the topics on which information will be asked of them.

UNIT II: MARKETING

SUMMARY: Marketing is an important tool for helping small business owners/managers to define consumer targets, collect and analyze consumer and sales information, and solve business problems.

STUDENT LEARNING OBJECTIVES:

- Explain the role of marketing in small businesses.
- List variables relevant to choice of product or service lines.
- Identify consumers for specific product or service lines, using market segmentation.
- Define "competition" with specific examples.
- Carry out a marketing research project of limited scope.

STUDENT PROJECT WORK:

- Formulate four product- or service-related questions, and refine product or service lines as a result of information gained.
- Formulate three questions concerning consumers and refine plans for business on the basis of information gained.
- Identify competitors for four product lines and refine plans for business on the basis of information gained.
- Combine information from the three above objectives into a brief description of the business, including what goods and/or services will be sold, to whom, and why.

TEACHING STRATEGIES:

Part A: Introduction to Marketing: discussion

Part B: Marketing Research: discussion

Part C: Product Choice: discussion, student project segment

Part D: Identifying the Consumer: small group exercise, student project

Part E: Identifying Your Competition: discussion, worksheet, student project

Part F: It's Your Business (II): case study, completion of student projects, small group project evaluation.

MATERIALS PREPARATION:

Part A: Duplicate "How to Make a Last-Place Product a Banner Success," and "Internal and External Variables of Marketing."

Part B: Duplicate "Sources of Information..."

Part C: Duplicate "Product Line and Product Mix," "Marketing Research Project Instructions," "Project Worksheet"

Part D: Duplicate six copies, "Market Segmentation," "Project Worksheet: The Consumer"

Part E: Duplicate "The Yellow Pages," "The Competition"

Part F: Duplicate "The Center Store," case study materials, one set for each group of 4-6 students (Items 1., 2., 3., and 4.)

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

3. "Ray Garcia." Discussing his printing bid with the purchasing agent of a large insurance company, Ray Garcia, a Puerto Rican, must decide how to deal with prejudice.

Other Mini-Problems:

9. "Count the Customers." Students invent an efficient way to record the number of customers entering and their arrival times.

12. "Honolulu Toy Business." Given the necessary facts, students are asked to decide between a toy business dealing in local handcrafted toys and one dealing in mass-produced toys.

21. "Table Radio." Students segment the market for an elaborate table radio and write newspaper advertisements for three market segments as an exercise in adapting a message to the circumstances of several types of readers.

23. "Kumquats." Students devise a marketing research system to find out if customers would be interested in buying unusual and exotic foods.

36. "Sylvia Messer." Students decide what Sylvia, the owner of a sportswear shop, should do about a man who returns a luxury shirt after having worn it.

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PART A: INTRODUCTION TO MARKETING

1. Introduce and define marketing. Marketing is the process of finding out what a consumer (a customer or buyer) wants or needs and providing it, at a profit to the seller. Marketing consists of all the activities involved in getting goods and services from the producer to the consumer.

2. Write the key elements in marketing on the board:

   - marketing research
   - product line and mix, or type and variety of services
   - consumers
   - competition
   - location
   - pricing
   - promotion

3. Describe the way each element influences the sales potential of a product.

   a. Marketing research is necessary to determine an optimal marketing strategy. It includes determining which products and services certain types of consumers are likely to buy, the design features that are most appealing, the optimal price ranges that the product or service will sell for, etc. Not all small businesses conduct formal marketing research, but it is valuable to businesses just starting or needing to make a major decision.

   b. For example, a product line and mix must be chosen. Goods and services are sales items. Some entrepreneurs also have the opportunity to design their goods, or to choose them on the basis of their design. Design affects the image of the product, as well as its usefulness and efficiency. Many existing products (or their packages) are redesigned periodically (e.g., glass shampoo bottles have largely been replaced by plastic bottles; pots and pans are now offered in a number of colors to blend with kitchen decor).

   A complete set of inexpensive kitchen utensils made by one manufacturer is a product line; a second line of more expensive or differently designed kitchen utensils would represent a limited product mix. But adding placemats, calendars, and soap to the inventory would greatly expand the product mix.

   c. Identification of consumers is closely related to choice of a product line. The total market must be segmented and accurate information collected on different sub-groups.

d. The competition must be identified and assessed. For example, not all clothing stores are in competition with each other: only those serving the same customers in roughly the same price range are competitors. Decisions concerning location, pricing, and promotion will be covered more fully in later units. They are listed here to complete the steps in marketing and marketing research.

e. Location decisions can have greater or lesser importance, depending on the product or service, and the customers. As in Gould's case, a poor location can result in business failure.

f. Pricing is an important element in marketing a product or service since it is a major factor considered by a consumer before buying the product or service. Some of the many constraints on the pricing of products are: (1) the minimum price that the retailer can charge and still make a profit for the business; (2) the cost of the product, e.g., production and associated costs; (3) the price that competitors are charging for a given product or service. The price of a product or service must be high enough to bring a profit to the seller (be it at the retail, wholesale or producer level), but it cannot be higher than the consumer is willing to pay. The price of a product or service will directly affect the number of units that are sold.

g. Promotion and advertising present the message to the consumer that the product or service is worth paying for. The message may originate with the producer, the supplier, or the retailer. The message also may take a variety of forms, including newspaper or magazine advertisements, television commercials (often provided by the producer), demonstrations, displays, pricing advantages, etc. Increased sales are the measure of success in this area.

4. Elicit from the students examples of how each element could affect several types of businesses students have chosen as projects.

5. Stress the importance of marketing in small business. Marketing is a dynamic and constantly changing process. A business which ceases to fulfill people's needs and wants, or fails to keep its market informed of the products and services it offers, will not survive.

6. Distribute "How to Make a Last Place Product a Banner Success." Allow students 10 minutes to read it. (Alternative Suggestion: This may be assigned as homework, with points 7 and 8 as the focus of discussion.)

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7. Discuss how the Mets illustrate the marketing concept. The Mets encouraged attendance, hence profits, by: (1) appealing to the fans' sense of nostalgia (they developed the image of the Old National League; they hired older players; and they played in an old stadium); (2) providing entertainment through audience participation (spotlight groups, Camera Day, Banner Day, etc.) and by highlighting colorful baseball personalities, and (3) creating an underdog image (fans identified with the team and cheered it on).

8. Explain how the marketing concept influenced the Mets' success. The Mets' objective (high attendance) and strategy (entertainment) were consumer-oriented and thus successful, while the Yankees' objective (to win games) and strategy (to concentrate on the team) were company-oriented and less successful. Sales make a business a success. Analyze the article in terms of small business marketing creativity.

9. Discuss the ways that a business under new management might change or improve its image through various marketing techniques. Ask the class to provide examples from their experience of specific businesses.

10. Distribute the information sheet, "Internal and External Variables of Marketing."

11. Explain to the students that there are some elements of the marketing system that a small business owner/manager can't control. Product, price, promotion, and distribution can be controlled and varied by the small business owner/manager to meet the needs of her or his target customers, but some factors or variables that affect a business cannot be controlled. These are called "external variables."

12. Discuss each of the external variables listed in "Internal and External Variables of Marketing."

13. Explain the practical considerations which must be addressed in planning a marketing strategy. Costly marketing strategies may cut into profits (e.g., promotion/advertising). In addition to cost, the small business owner or manager must determine how much time and effort he or she can invest in marketing. The short-term and the long-term benefits of the marketing strategy to the business must be considered.

14. Summarize the marketing concept. To be successful, businesspeople must consider the consumers--their needs and desires, likes and dislikes, habits and attitudes--at every stage and level of the business operation. At the same time they must recognize the potential consequences of their marketing strategy.

CASE STUDY

HOW TO MAKE A LAST-PLACE PRODUCT A BANNER SUCCESS

THE NEW YORK METS MAY NOT WIN MANY BALL GAMES, BUT THEY WIN CUSTOMERS IN DROVES THROUGH A SENSE OF FAN PSYCHOLOGY, A SPARKLING STADIUM AND A BLITHE SPIRIT -- CASEY STENGEL

As the New York Mets trotted out on the turf at Shea Stadium in 1965, they were involved in much more than opening the National League season. They had the choice of continuing a marketing drama that, for three years, had dazzled and mystified many long-time observers of the big-business ballgame.

The cause of the Mets' box office success prompted all kinds of bewildered guesswork. More conservative types concluded that it was largely due to the club's new ball park (which seats 55,000) and having the World's Fair about a home-run shot away. The most popular speculation, however, was that the habitual cellar-dwellers' main attraction was based on a loser's mystique--since everyone loves the underdog.

Lost in all this wise thinking, though, is the fact that the Met management, before the makeshift club ever took to the field, had devised a model marketing plan for a new product introduction, based on:

Analyzing the present market and its potential.

Playing up the product's special plusses.

Cashing in on the competition's mistakes.

In 1961, the Met organization began to take shape. On the surface, the chances of building a big Met following seemed remote. The Yankees had had local baseball all to themselves since 1958--when the two National League teams, the New York Giants and the Brooklyn Dodgers, bolted to San Francisco and Los Angeles, respectively.

The Yankees, then, had four years to attract National League fans to Yankee Stadium, and to expand their basic marketing area--Westchester, Connecticut, New Jersey and upper Manhattan--to Long Island and other parts of the city. They missed the chance by their own nearsightedness, being content to win pennants and lose customers. And they also dismissed the incomparable and ageless Charles Dillon "Casey" Stengel as the Yankee manager in October, 1961.

Aided by Yankee unconcern, the Met promotional strategists sold nostalgia and Casey right from the start. They passed up promising youngsters in the player draft and bought older National League hands (fading or not), instead. The original Mets included such New York favorites as Gil Hodges, Richie Ashburn, and Clem Labine.

Club representatives, meanwhile, were available for speaking dates all over, particularly in Long Island, an area neglected by the Yankees and handy to Flushing, where the new stadium was to rise. "We felt we had a special commodity in Casey, and we used him heavily," recalls the Mets' first promotions director. This meant, among other things, that Casey commanded the Mets' float in Macy's 1961 Thanksgiving Day Parade--even before the Mets made their earliest errors in the Old Polo Grounds.

New Slants on Old Pitches

The Polo Grounds, long since deserted by the Giants and run-down before they left, was a fairly uninviting ball park. But the Mets poured several hundred thousand dollars into improving it, and the club was off and bumbling. No one seems to know exactly when the stampede began, but more and more fans piled into the Polo Grounds--some of them carrying banners with words of encouragement for their favorites. This new breed of fan rocked the stadium with roars of "Let's Go, Mets!"

These pleas sometimes failed to reach the players (who won only 40 of 160 games in 1962). But they penetrated to nearby Yankee Stadium, where attendance sagged to 1,500,000 from 1,750,000 in 1961--when the club had no competition. The Mets even got about 33% more fans in their first year than the Giants had gotten in their last one at the Polo Grounds.

Much of this crowd was attracted by special promotions--the kind of thing that's been a part of baseball for years. But the Met promotion people took their cue from the fans. In 1962, for instance, the faithful began bringing cameras to the park and, as a result, a Camera Day was started--when fans could crowd around near the dugout for shots of their heroes. Banner Day, of course, is a Met institution, when prizes are given for the choicest inscriptions (there were 1,100 entries in 1964). Some of the other "Nights" and "Days" in 1962 included: Family Day (when the ball players' kids put on a brief game), Musial Night, Hodges Night, Home-run Hitting Contest (an old event, but last year the Mets opened it to all kinds of athletes), Old Timers' Day, and on and on--most of them familiar but tailored thoughtfully to the fans' taste. The mighty Casey, himself, suggested Cab Drivers' Day.

In 1962, Casey marked 50 years in the big leagues and the Mets marked one year in the Polo Grounds--both events to publicize. For the Mets, however, a new promotion theme centered about "The Mets Are On The Move"--suggesting they would be in the new Shea Stadium in 1963. They weren't, of course, for the Flushing park wasn't ready. But attendance boiled up over a million at the Polo Grounds as banners waved, old stars such as Duke Snider had "Nights," and the club lost 111 of 162 games. The Yankees won another pennant and dipped to 1,300,000 at the gate.

Stengel to Shea to Change

In 1964, in the spanking new Shea Stadium, the Mets drew still more fans--which so aroused them that they won 53 games (a new Met high) out of 162, but still were not menaced for the cellar spot. The Yankees (angry by now) copped the American League flag as usual, but attendance kept sliding to 400,000 below the Mets.

If the New York fans welcomed the Mets, so did a variety of companies as sponsors; Leibmann Breweries, Rheingold beer and Viceroy cigarettes, Bohack Supermarkets, King Korn Trading Stamps, Howard Clothes, and Borden's dairy products among others. Marine Midland Trust Co. and Federal Bank and Trust Co. steadily featured the Mets in advertising, and a new promotional movie, "It's a Met, Met, Met, Met World," was displayed at the Federal Bank Branch.

What about the 1965 season? The World's Fair, of course, was still going on and the Mets added such attractions as Yogi Berra, another castoff Yankee manager, and Warren Spahn, the great left-hander. On the basis of advance ticket sales, an attendance goal of 2 million was set. The promotions were not more numerous but followed the same unusual and imaginative course.

Some critics suggested--in line with Mets' appealing last-place posture--that the club would lose fans if it crept out of the cellar. Met officials, naturally, called this "ridiculous"--pointing out that the club has other charms besides losing. This makes sense, for most observers don't believe New York fans would continue forever to delight in clumsy performance. And the glamour of the World's Fair and the new ball park couldn't be enough to compensate for the lack of base hits. However, that may be, the Mets' marketing saga is still an exciting one.

Written assignment:

Analyze the article in terms of a small business' marketing creativity. What effective strategies were used in promoting the Mets as a business?

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INFORMATION SHEET

INTERNAL AND EXTERNAL VARIABLES OF MARKETING

Internal (controllable)

-- Non-Marketing resources	Production, financial resources, personnel capability, location.
-- Marketing	The term used to describe the four key aspects of a business' efforts to sell its products or services:
1. Product (goods or services, includes policies)	Product line, changing existing products, adding new ones, branding, packaging, color, service, guarantees, repairs, warranties
2. Price	Base price, discounts
3. Promotion	Advertising, personal selling, sales promotion, image
4. Distribution	Somewhat external and fixed; still can choose whether to market perfume through discount, high fashion, door-to-door, drugstores, or jewelry stores, for example.

External (uncontrollable)

-- Market demand: economic and behavioral	Buying power, number, location, motives, behavior, size, age, sex, race, religion, cultural tradition
-- Political/legal	Truth-in-advertising, truth-in-lending, discrimination laws, pollution laws, zoning, "blue laws," wage-price freezes, boycotts.
-- Social/ethical	Consumerism, company image (reputation)
-- Competition	Industry, other products, substitutes
-- Technology	Obsolence, new methods and new materials
-- Distribution system	Means by which goods flow physically from producer to ultimate user.

PART B: MARKETING RESEARCH

1. Introduce marketing research. Define the term and its purpose. Marketing research is the collection and analysis of information that relates to the buying habits and preferences of consumers. It is the tool that helps small business owners or managers define business problems, collect the necessary information, analyze the information, and attempt to identify the most profitable mix of products or services that the businessperson can offer to the public.

   Many small business failures can be traced to errors in determining a product and market. The enthusiasm of the prospective entrepreneur can often cause him or her to overlook this most basic business premise. The basic purpose of a business is to satisfy customer needs and wants.

   Because the majority of small businesses operate on a fairly small margin of profit, it is not enough to market goods or services which might sell. It is essential to determine as precisely as possible that a market does exist for specific products or services before starting a business or expanding an existing inventory.

2. Explain that marketing research is useful to the small business person at several points in a business' life:

   a. Before beginning a business, it is necessary to define whether the location, product, surrounding population, and image of the business are compatible with each other.

   b. After beginning a business, it is necessary to determine:

      --where to grow (e.g., new or different products or services, expand at original location, open additional locations, extend hours)

      --where to cut back (e.g., what aspects are not profitable)

      --where to change emphasis (e.g., switch to different location, products, services, advertising strategy)

3. Pose this problem to the class:

   "Suppose you want to go into small business after you finish school. Your family has offered to lend you money for the down payment on a business. You are interested in music and are considering buying a neighborhood record store that is for sale. This record store has always stocked classical records more than any other kind.

"All you know about the store is its location (a side street of a business district), its current stock (classical records, a few folk records, some sheet music), and the size and appearance of the building (large, well kept, older building)."

4. Ask the students if they would decide to buy the store based on this information. Is this information enough?

   Ask them what additional information they would want before deciding. Write on the board the appropriate responses (e.g., the characteristics of the area where the business is located, the potential consumer population profile, information about the present owner's reason for selling the business, competition, etc.).

5. Explain that throughout this unit students will be conducting preliminary marketing research on their projects. Based on results of their marketing research, they will make decisions concerning their products, customers, and competition. At the end of the unit they will compile this information, focus on potential problems and suggest solutions. They will end with a brief revised business description. By testing their initial assumptions about their businesses, more realistic projects should result, with a greater chance for success.

6. Distribute the Information Sheet, "Sources of Information for Small Business Owner-Managers." Allow the class several minutes to look over the material. Briefly discuss the major types of information sources.

   Explain that these sources are only some of the formal and informal sources of information available to help solve marketing problems and make marketing decisions, and ask students to suggest additional sources of information.

INFORMATION SHEET

SOURCES OF INFORMATION FOR SMALL BUSINESS OWNER-MANAGERS

Federal Government

- Small Business Administration (management and technical publications):
    - SMALL BUSINESS BIBLIOGRAPHY SERIES
    - STATISTICS AND MAPS FOR NATIONAL MARKET ANALYSIS
    - NATIONAL DIRECTORIES FOR USE IN MARKETING
    - MANAGEMENT AIDS FOR SMALL MANUFACTURERS
    - SMALL MARKETERS AIDS
    - SMALL BUSINESS MANAGEMENT SERIES
    - STARTING AND MANAGING SERIES
    - STARTING AND MANAGING A SMALL BUSINESS OF YOUR OWN

- Bureau of the Census (demographic and economic surveys)

- Bureau of the Budget
    - STANDARD INDUSTRIAL CLASSIFICATION MANUAL
    - STANDARD METROPOLITAN STATISTICAL AREAS
    - STATISTICAL SERVICES OF THE UNITED STATES GOVERNMENT

- Department of Commerce (statistical and business information):
    - FACTS FOR MARKETERS
    - A GUIDE TO BLACK MARKETING INFORMATION
    - MEASURING MARKETS: A GUIDE TO THE USE OF FEDERAL AND STATE STATISTICAL DATA
    - CENSUS OF BUSINESS: RETAIL-AREA STATISTICS--U.S. SUMMARY
    - CENSUS TRACT MANUAL
    - COUNTY BUSINESS PATTERNS
    - DIRECTORY OF FEDERAL STATISTICS FOR LOCAL AREAS
    - COUNTY AND CITY DATA BOOK
    - ECONOMIC DEVELOPMENT ADMINISTRATION (aids small businesses in cities with high unemployment)

- Office of Minority Business Enterprise
    - SMALL BUSINESS DEVELOPMENT CORPORATION (aids small businesses; name may vary from state to state)

- Department of the Treasury (Internal Revenue Service)
    - TAX GUIDE FOR SMALL BUSINESSES

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State Government

- State Department of Commerce
    - OFFICE OF NEW BUSINESS DEVELOPMENT (legal requirements, how to get started, whom to contact)
    - OFFICE OF MINORITY BUSINESS ASSISTANCE (publications, inexpensive training workshops--one-day or series, focuses on racial minorities)
- Secretary of State
    - STATE BOOKSTORE (monographs on particular cities or towns: data on population trends; income, age, ethnic groups; business and industry; historical and tax data)
- Department of Revenue (sales tax)
- Division of Employment Security (labor market information, unemployment insurance)
- Commission Against Discrimination (credit, hiring regulations)

Local Government

- Regulatory Agencies (i.e., taxation, licensing, highway and police departments)
- Urban and Regional Development Agencies
- Redevelopment Authorities, Industrial Commissions or Mayor's Offices (e.g., Boston's Economic Development Industrial Commission)

Nongovernment

- Chambers of Commerce
- Trade Associations--one of the primary functions of a trade association is to act as a clearinghouse for information passing between members of the industry, between the industry and government, and between the industry and the general public.
- Community Colleges and State Colleges
- Suppliers and Wholesalers
- Merchants Associations
- Banks and Loan Associations
- Entrepreneurs (local business owners, managers, workers)

- Lawyers and Accountants
- Consumers (friends, relatives, neighbors, students, co-workers, etc.)
- Retired entrepreneurs, e.g., SCORE (Service Corps of Retired Executives) may be contacted through the Small Business Administration
- Minority Purchasing Council's Directory of Minority firms for use by member industrial concerns (New England).

Printed Materials

- Directories--produced by Chambers of Commerce, Merchants Associations, etc., (variety of services and products in today's complex marketplace, and the names and addresses of competitors and distributors).
- Magazines and Journals
    - ADVERTISING AGE
    - ADVERTISING AND SALES PROMOTION
    - BLACK ENTERPRISE
    - BUSINESS HORIZONS
    - BUSINESS WEEK
    - HARVARD BUSINESS REVIEW
    - INDUSTRIAL DISTRIBUTION
    - SALES MANAGEMENT
    - INDUSTRIAL MARKETING
    - JOURNAL OF ADVERTISING RESEARCH
    - JOURNAL OF BUSINESS
    - JOURNAL OF MARKETING
    - JOURNAL OF MARKETING RESEARCH
    - MARKETING/COMMUNICATIONS
    - WALL STREET JOURNAL
    - SUCCESSFUL BUSINESS
- The Yellow Pages
- Newspapers
- Universal Atlases (regional books of maps often contain tax and population data).
- Libraries and Bookstores

PART C: PRODUCT CHOICE

1. Discuss goods and services as sales items. There are four elements of marketing that a small businessperson can control and vary to reach his or her market: product, price, promotion, and distribution. The most basic of these elements is the product or service, since price, promotion, and distribution strategies will largely be shaped by the nature of the product. A product, at its simplest level, is anything that someone is willing to sell and someone else is willing to buy. It can be a physical object or a service. However, the product is more than just a physical object or a service--it is imbued with images and values that the consumer sees or feels about the product.

2. Discuss the different reasons why consumers buy products. Examples: People need the product to survive or to maintain good health or cleanliness. They want the product or service to make themselves more attractive, to make life easier. They think they might like the product but haven't seriously considered purchasing it before. They are replacing a similar product which has broken, worn out, been outgrown, etc.

3. Classify and write on the board the different types of purchases: Impulse items, staples, emergency goods/services. Ask the class to provide examples of each type of purchase and of products which may fall into more than one category. Example: A sweater may be purchased either out of real necessity, or because the buyer likes it (even though he or she already has several) or as an extra item suddenly purchased to match a new pair of pants, or as a gift.

4. Define and discuss the image of a product. In marketing, a product is more than just a physical object or a service. Apart from its basic function, a product consists of a set of images that the customer attaches to it. The image may result from the way the product looks or feels, from what the advertising suggests that it may do for the consumer, or from some particular interest or preference of the consumer. These images satisfy specific consumer needs--psychological as well as physical. For example, a cinnamon-flavored, red-colored toothpaste with whiteners and fluoride would satisfy a parent's need for prevention of tooth decay while appealing to a child's taste preferences. This same toothpaste could also satisfy an adult's desire for a prettier smile, sex appeal, and fresher breath.

   Explain the importance of understanding the intangible product image when determining what products will sell to which target group.

5. Display a series of advertisements for nationally advertised products (prepared before class). Ask the students what product image is put forth by each ad, and what consumer target groups are likely to be affected by the ad's image message.

6. Distribute the Information Sheet, "Product Line and Product Mix." Define and discuss these concepts. Product line in a group of products that have similar uses and physical characteristics. For example, the product lines of a camera store are, broadly, photographic supplies and services. The product lines can be further subdivided into film, cameras, lenses, darkroom supplies, projectors, film developing services, printing services, and portraiture.

   The collection of all these product lines is called a product mix when the product lines are offered in one store. Product mix is all the products, which includes both goods and services, offered for sale by a business.

   Ask the students what the product mix for a bookstore could be: books, maps, calendars, posters, records, magazines, stationery, cards, jigsaw puzzles, etc. Students can fill in the grid on the information sheet with examples provided in class.

7. Define "breadth" and "depth," illustrating with the example of the previous step. The number of product lines offered by a business is called "breadth." If a bookstore only carries books, its breadth is narrow. If a bookstore carries all the product lines just listed, its breadth is wide. Depth within the product line refers to the assortment of models offered. The product line, books, can be categorized into reference books, children's books, fiction, mysteries, science fiction, cookbooks, etc. This variety gives the product line depth.

8. PROJECT REPORT Students are to develop an appropriate inventory of products and/or services for their project businesses. Distribute "Marketing Research Project Instructions: Choosing a Product Line" and the worksheet that accompanies it. The inventory will form part of their marketing research report to be turned in at the end of Unit II.

INFORMATION SHEET

PRODUCT LINE AND PRODUCT MIX[1]

Product Line -- A group of products that have similar uses and physical characteristics. Examples: sporting goods, men's apparel, beauty aids, landscaping services.

Product Mix -- The collection of product lines offered by a store. Examples: (1) sporting goods store--golfing equipment, ski equipment, tennis racquets, basketballs, baseball bats; (2) men's clothing store--men's furnishings (shirts, ties, underwear) men's ready-to-wear suits, sport jackets, topcoats, slacks; (3) drug store-beauty aids, health aids (cold remedies, toothpaste, pain killers), infant goods (diapers, baby food, pacifiers).

Breadth -- The number of product lines offered by a business. Example: breadth at Continental Cuisine, is all cooking-related products, not just French cookware.

Depth -- The assortment of models offered within a product line. Example: Continental Cuisine carried 6" skillets of iron, enamel steel and aluminum with prices ranging from $3.98-$18.95.

Business	Product Lines			Product Mix
	+	+	=	
	+	+	=	
	+	+	=	
	+	+	=	

MARKETING RESEARCH PROJECT INSTRUCTIONS

CHOOSING A PRODUCT LINE

In choosing your business products and/or services, it is helpful first to review "The Six Steps of Making a Decision" in Unit I, Part C, then follow the steps outlined below.

Marketing research is an activity which requires you to make a serie of complex decisions, in this case, product decisions. For each product line, you will need to weigh many factors:

1. Supplies (availability, terms)
2. Sales volume expected (compared to other product or service lines)
3. Cost (in this case, initial)
4. Profitability (total profits per month for this line compared to others)
5. Customers (who, how many)
6. Competition (where located, how it competes)
7. Specific products or services in each line (breadth and depth)
   a. Is the product a staple, an impulse item, or a luxury?
   b. What models, brands, colors, or size ranges are best?
   c. What price or quality range is best?
8. Do I have experience handling these or similar goods (or providing similar services)?

You can probably think of dozens of questions to research, but you should limit yourself to the four most important ones for this exercise. Formulate your questions thoughtfully. For example, you may be planning a house cleaning service offering weekly, bi-weekly, and heavy cleaning and want to be assured of a market for these. However, you may be interested in finding whether additional services would increase profits. You decide to research comparative costs and profits for two potential service lines: upholstery shampooing and soot and smoke damage removal. Your questions might be:

1. Which service line has more potential customers?
2. What costs (new equipment, new employees, training) would each involve?
3. What could I charge for these services?

4. Which would be more profitable--to find more customers for my housecleaning services or to add one or both additional services?

Having stated your questions use "Sources of Information," to decide which sources will probably be useful in answering your questions. Write down at least one source possibility for each question that you have raised. Complete your plans to collect the necessary information for your marketing research problem. This may mean a visit to the library; interviews with entrepreneurs, business representatives, suppliers, etc., or surveys of potential target consumer groups. Then, collect information from the various sources. If you conduct a survey, ask each person the same questions stated in exactly the same way.

When you have collected your information, you must examine it to see what it appears to tell you overall. Look at the answers that you have obtained and think about how they affect your original business plans. (For example, do they indicate that there is a good market for your business, with some changes in the goods and services that you originally planned to provide? Is the competition so stiff that you must think of a new angle for your business? Have you found an additional target group that you had not originally planned to serve?)

Make decisions about the final products or services your business should offer, based on the findings of your marketing research project. Explain why you have made the decisions that you have. Use the worksheet to summarize your findings.

MARKETING RESEARCH PROJECT WORKSHEET

PRODUCT CHOICE

Product or Service	Questions	Information Sources	Information Results
	1.		
	2.		
	3.		
	4.		

Effect on my plans (product or service lines and mix)/Decisions reached:

Name(s)______________________________________ Date_______________________

PART D: IDENTIFYING THE CONSUMER

1. Introduce market segmentation. A basic and continuing marketing activity is the identification of what types of goods or services are likely to be purchased by which types of potential consumers--the buying population. After the businessperson establishes that a market exists for particular goods or services, he or she must identify those characteristics of the consumers which influence their buying behavior. With this information, the business person can determine what products will give the greatest satisfaction to the consumers.

   Consumers: The age, social and economic status, and educational level of consumers in a community may influence price levels and types of goods or services either needed or wanted. Buying patterns also change among consumer groups. For example, the "youth generation" (ages 15-34) tends to exhibit particular consumer patterns (e.g., some types of sporting equipment, stereos and records, entertainment) which are different from those of older buyers. Blue collar workers generally have different leisure time interests and spending patterns than those of white collar workers. Thus it is important to determine the average age, income, and level of education in your community.

2. Define "total market" and "market segmentation." The total market for a product or service is all the potential buyers of the product. Market segmentation is the process of dividing the total market for a product into smaller submarkets. The small businessperson must then decide which submarket(s) to pursue. Draw grid on board (as in worksheet) and fill in an example. One example:

   Blue jeans: Total market is anyone who wears pants.

Market Segments	Basis for Segmentation	Product for Each Segment
1. construction workers	occupation	overalls, workpants, pants with extra pockets
2. children	age	play clothes
3. men and women	sex	casual clothes, dress jeans
4. hikers	special interest	jeans with loops to hold ropes, etc.

3. Discuss the criteria for segmenting markets. In order to segment a market, the characteristics of the segments must be measurable and the data about them accessible. The market can be segmented or divided into groups by considering such characteristics as:

   a. Age
   b. Sex
   c. Marital and/or family status
   d. Occupation
   e. Income
   f. Geographic location
   g. Physical characteristics
   h. Others, as appropriate (examples: home ownership, religious or ethnic identity)

4. Divide the class into six small groups (three to five students each). Distribute a copy of the in-class market segmentation worksheet to each group. Assign to each group one of the following goods or services for which the market must be segmented:

   - Beer
   - Hotels
   - Sneakers
   - Bicycles
   - Laundry service
   - Travel agency

   Ask the students to determine: (a) the total market for the group's product, (b) its market segments (who will buy the product), (c) the basis used to segment the market (age, sex, marital status, etc.) and (d) the types (the range and quality) of products or services most likely to appeal to each target group segment.

   Groups should be allowed about 15 minutes to complete this exercise.

5. Discuss the groups' work in class for each of the goods or services assigned. Consider the following points:

   - What is the total market for the product?

   - What are the segments of the total market?

   - What were the bases used for defining each of the market segments?

   - What products or services would be most appropriate for each segment?

BEER

Total market is everyone who drinks alcoholic beverages.

	Market Segments	Basis for Segmentation	Product for Each Segment
1.	college drinkers	age, occupation	inexpensive brands
2.	beer gourmets	status	expensive imported brands
3.	suburbanites	location, residence	multi-can packs cases of premium beer
4.	sportsmen	sex, special interest	six-packs of premium beer
5.	young singles	marital status, age	expensive imported brands, draft beer

HOTELS

Total market is anyone who travels.

	Market Segments	Basis for Segmentation	Product for Each Segment
1.	businesspeople	occupation	centrally located, special services, conference or entertainment facilities
2.	families	family status and size	inexpensive, large room-multi-occupancy, baby-sitting services, play equipment, convenient parking
3.	newlyweds	marital status	privacy, entertainment room service, near entertainment sites
4.	tourists	activity	centrally located to local attractions, guide services, car rental facilities
5.	conventions	special interest	convention facilities, restaurant and bar facilities, entertainment

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SNEAKERS

Total market is anyone with feet.

Market Segments	Basis for Segmentation	Product for Each Segment
1. children	age,sex	sneakers, school shoes, dress shoes
2. athletes	special interest, occupation	professional sport sneakers (e.g., tennis, basketball, jogging, high-priced sneakers)
3. women or men	sex	casual shoes, special sport sneakers
4. boaters	special interest	boat sneakers

BICYCLES

Total market is most active people.

Market Segments	Basis for Segmentation	Product for Each Segment
1. children	age	tricycles, trainer bikes, small bikes, bikes with "banana" seats
2. racers	special interest	racing bikes, 10-speed bikes
3. senior citizens	age	Three-wheel bikes, easy upkeep bikes, bikes with three gears for easier uphill and downhill rides
4. commuters	occupation, location	fast, practical bikes, folding bikes

LAUNDRY AND DRY CLEANING SERVICE

Total market is anyone who wants clean clothes without spending time on washing, drying, or ironing the clothes.

Market Segments	Basis for Segmentation	Product for Each Segment
1. businesspeople	age, occupation	quick service laundry and dry cleaning in central location
2. travelers	activity	one-day service for washing and dry cleaning located in or near hotel or motel
3. singles	marital status	full service laundry, wash and fold service.
4. hotel managers	occupation (kind of business)	laundry service for linens and towels

TRAVEL AGENCY

Total market is anyone who wants or needs to travel.

Market Segments	Basis for Segmentation	Product for Each Segment
1. singles	marital status	resort vacation package
2. businesspeople	occupation	business trip arrangements, often including hotel and rental car reservation
3. college students	age, occupation	low cost air travel, bus tours, information service for camping accommodations
4. retired people who are financially secure	age, economic status	resort accommodations, cruises, tours

6. **PROJECT REPORT** Ask students to complete the market research project worksheet on market segmentation for their project businesses. It will form part of their marketing research report to be turned in at the end of Unit II.

IN-CLASS WORKSHEET

MARKET SEGMENTATION

Criteria for market segmentation must be measurable and the information about them must be accessible. Not all characteristics are relevant for all products or services. Possible characteristics:

a. Age
b. Sex
c. Income
d. Location
e. Physical characteristics
f. Others: ____________
____
____
____

PROUDCT LINE: ________ (Example: bicycles) ________

	Market Segments	Basis for Segmentation	Product for Each Segment
Example	racers	special interest	racing bikes, 10-speed bikes
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			

MARKETING RESEARCH PROJECT WORKSHEET

THE CONSUMER

This worksheet will form part of your marketing research report, and you should follow the procedures outlined in the "Marketing Research Project Instructions" in Part C of this unit.

Segment your market for at least one of the product lines you selected in Part C. Follow the model discussed in class.

Questions	Information Source(s)	Information Results

Effect on my plans:

PART E: IDENTIFYING YOUR COMPETITION

1. Define competition: any business that rivals for your customers' purchases. Once products and consumers are identified, the competition needs to be assessed. Focus on such questions as geographic spread, price range, special sub-makret appeal. In the retail business, for example, your most direct competition may come from well established stores that have attracted a loyal clientele. In manufacturing and service businesses, competition comes from large industries that lower prices because of higher sales volumne. It is vital to determine the extent and the nature of your competition.

2. Competition for a restaurant is not all other restaurants. Students should define the competition in terms of:

    - customer market segments
    - speciality vs. "American" foods
    - cost
    - hours
    - location in area

3. Ask students how they may have already identified some of their competitors. Possible answers: compared prices, products and services, image, and atmosphere at similar stores; talked with friends, neighbors, and other small business persons; used business directories at the library; drove around the neighborhood. Be sure to mention these answers if the class misses any.

4. Explain to students that the Yellow Pages of the telephone directory provides valuable information to the potential or current entrepreneur and is a good starting point in identifying one's competition. The uses proposed in this exercise represent only some of what can be learned from the Yellow Pages.

5. Distribute the Student Worksheet, "The Yellow Pages," to students. (This exercise can be done in class, in which case students should be asked to bring a copy of the Yellow Pages from home for this exercise. Alternatively, it can be assigned as homework, in which case discussion will take place on the following class day.)

    Ask students to follow the instructions in "Electric." How do their estimates compare with the actual number of headings? Tell students that the Manhattan Yellow Pages had 108 headings under "electric." Each of these represents an opportunity for the entrepreneur.

6. Ask students to propose possible explanations for the fact that there are many more feature advertisements for restaurants than for grocers. Possible answers:

- Restaurants have a higher profit margin and can therefore afford more feature advertisements.

- There are more restaurants than grocers, making the restaurant business more competitive; restaurant owners therefore have to advertise more heavily.

- People usually patronize grocery stores in their neighborhood, while they are willing to go further for a restaurant: wide-area advertising is therefore less sensible for grocery stores than for restaurants.

- Because restaurants are often more specialized than grocery stores, they need to advertise their special characteristics, such as location, kind of food, atmosphere, etc.

7. Stress that the Yellow Pages can provide a wide variety of potentially useful information. Ask the class to suggest other uses (e.g., ordering supplies, developing mailing lists, getting marketing ideas, finding contacts for getting into business). Finally, stress its most obvious use--advertising. Remind student to start a business before the Yellow Pages are published, or they may not be listed for up to a year.

8. PROJECT REPORT: Discuss the use of the Yellow Pages and other sources to identify their potential competition. Stress the advisors as "gold mines of information" on this topic. Review the other methods of identifying competitors discussed in point #3, above. Distribute the "Marketing Research Project Worksheet, THE COMPETITION." As an example of how to complete the worksheet, use a children's clothing shop:

Product or Service Line	Competitor	How Competitor Was Identified	Competitor's Strengths	Competitor's Weaknesses
Boys' coats and raincoats	Maynard Outdoor Store	Friends	Wide range Comparable prices Central location	Unattractive Layout Hard to find items Not enough dressing rooms Rude salespeople

Tell students that this information will form part of their Marketing Research Report to be turned in at the end of Unit II. They may also want to identify the locations of their competitors on a map and attach it to the worksheet.

WORKSHEET

THE YELLOW PAGES

"Electric

1. Without opening the Yellow Pages yet, take a guess on the number of different headings (not individual listings) to be found under "Electric"--electric appliances, electric contractors, electric heaters, and so forth. Reference headings, or those which refer you to another category (Electric flashlights: see "flashlights") count in the total.

2. After you have made an estimate, count the actual headings under "Electric" in your Yellow Pages. How does the total compare with yours?

3. Suggest some of the headings which could be useful to an electrician ordering parts, assessing the competition, or deciding how to advertise.

Grocers and Restaurants

1. Compare the Yellow Pages sections under "Grocers" and "Restaurants." Which contains more feature advertisements?

2. Think of possible explanations for the difference.

3. Choose one restaurant from the Yellow Pages. Locate it on a city or area map. List its competitors and give reasons for your choices.

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MARKETING RESEARCH PROJECT WORKSHEET

THE COMPETITION

(This worksheet will form part of your marketing research project. See the worksheet instructions distributed in the sub-unit on "product" for guidelines.)

Product or Service Line	Competitor	How Competitor Identified	Competitor's Strengths	Competitor's Weaknesses

Effect on my plans:

(Use an extra page if necessary. Also, you may want to attach a map with competition marked on it.)

Name(s)________________________________ Date______________________

PART F: IT'S YOUR BUSINESS (II)

1. **Review the process of marketing research:**

    1. Define the problem

    2. Collect data

    3. Analyze data

    4. Look at alternatives

    5. Determine the products to market

    6. Carry out the decision

2. Divide students into groups of four to six members. Tell students that they will be examining portions of actual marketing research materials assembled by owner Jim Barisano in preparation for purchasing an existing general store in Acton, Massachusetts, and upgrading its merchandise and appeal. Jim, at 25, has a B.S. in Business Administration from Boston University and experience as a manager of the Cambridge Tea and Spice House and co-owner of Duck Soup, a contemporary general store in Sudbury, a town near Acton. The new Acton store will be similar to Duck Soup, which has been very successful selling gift items, staple groceries, fine soups, jewelry, etc.

3. Distribute all case study materials except the town census data, one set to each group. Tell students to examine the materials carefully. Then they should compare Jim's reasons and decide which are more important in choosing product lines.

4. Distribute "Acton and Sudbury Census Data," taken from the town monographs, one set to each group. Allow time to look over the data and compare the two towns. Are the populations similar? Tell students that their decisions in 3 and 4 should form the basis for answering 5.

5. Pose the problem: Which three or four product lines actually sold best? Least well? Why? Groups should need about ten minutes to discuss these questions and agree on an "educated guess." (While they are discussing this problem, list the 17 product lines on the board.)

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6. Each group should post their results on the board, explaining why.

Suggested format:

GROUPS' JUDGMENTS

Product Line	Best	Why?	Worst	Why?
Health foods, etc.	Group 2	Population like Sudbury	Groups 1, 3, 4	Demand unclear
Coffees			Groups 2, 3, 4	Most people buy coffee at supermarkets
Candy, etc.	Groups 1, 3	From our experience		

7. Discuss the groups' reasons for reaching their decisions about which product lines should have sold best and which least well. Did they follow the process of marketing research (see point 1 above)? Which reasons did they think should have been the best predictors of success? the worst predictors? Did they feel they lacked enough information in some cases to evaluate the reliability of the reasons Jim gave? Which reasons, which information?

8. The chart below shows Jim's original reasons and the product lines which actually turned out to sell well or poorly. The original reasons are described in detail in the student page entitled "Jim Barisano's Reasons for Choosing the Original Product Lines." As the student version of the chart does not contain the "results" column, you should copy the plusses and the minuses on the board after the discussion in point 7 has been completed. (The absence of a plus or a minus in the "results" column means that the product line did not sell especially well or especially poorly.)

- The product lines which sold best turned out to be:

  Sandwiches, cold cuts, milk and cold drinks, newspapers, candy, smoking gear, and jewelry.

- The product lines which sold least well turned out to be:

  Health foods, gourmet foods, cookware, plants, plastics, and paper goods.

- The reasons which turned out to be the most accurate predictors of success were:

  Acton's need for a traditional general store; high turnover of merchandise.

- The reasons which turned out to be the least accurate predictors of success were:

  The income level and supposed sophistication of Acton residents;
  The fact that the product line had sold well in Sudbury.

In addition, Jim found that his customers weren't really interested in gourmet foods; that he was not able to carry a full line of health foods due to lack of space, although he thinks this might have improved sales somewhat; that plants didn't sell quickly enough to be worth the space they took up; and that some lines with a relatively narrow customer appeal take longer to "catch on."

9. Ask students to recommend changes in product lines for Jim's store, based on the sales results. Then tell them what Jim actually did: he sold out slow sellers at or below cost as "loss leaders," added items such as ice cream and more groceries that customers requested, and changed the store's layout to present a more unified picture (separated gourmet from groceries, gifts from household goods). Jim's major points:

   "Stay alert to customer needs. Turning over the money is critical to staying in business, so if you find some things don't sell quickly, get rid of them and replace them with items customers say they want. If you put in the long hours and hard work, it will pay off. Keep the store exciting, be flexible, and keep the customer in mind."

10. PROJECT REPORT Discuss student marketing research reports as the application of the knowledge acquired in this unit to their projects. They have already completed worksheets on products, consumers, and competition. The remaining steps are to:

    a. Summarize problems they found and solutions they suggest.

    b. Write a clear, brief (e.g., one page) description of the business. What goods and/or services will be sold? To Whom? Why?

    c. 8a and 8b plus the three earlier worksheets should be submitted as a preliminary marketing research report.

    d. Put the report format on the board:

       I. Title Page
       II. Worksheets
       III. Problems and Solutions
       IV. Business Description

START-UP MARKETING RESEARCH-SUMMARY FOR CENTER STORE (Instructor's Copy)

Product Lines	ORIGINAL REASONS								RESULTS
	Experience	"Boutique"	"General Store"	High Income/ Sophisticated	Need	Strong in Sudbury	Credit Available	High Turnover	Did Well (+) or Poorly (-)
1. Health Foods, Vitamins, Bulk Foods				X	X				-
2. Gourmet Foods, Teas, Spices	X			X	X				-
3. Coffees	X		X	X	X				
4. Candy, Fudge, Nuts	X		X			X		X	+
5. Cookware, Coffee Machines, Gadgets, Knives				X		X	X		-
6. Stoneware, Mugs, Ashtrays	X	X				X	X		
7. Soaps, Candles	X	X				X			
8. Plants and Planters		X		X					-
9. Wicker, Plastics		X		X					-
10. Jewelry	X	X			X		X		+
11. Paper goods			X						-
12. Smoking Goods	X	X	X				X		+
13. Pastry, Breads, Crackers, Miscellaneous Food			X	X		X		X	
14. Milk, Cold Drinks			X					X	+
15. Sandwiches					X			X	+
16. Coldcuts, Cheeses	X		X		X			X	+
17. Newspapers			X		X			X	+

CASE STUDY MATERIALS - THE CENTER STORE

(This page is an excerpt from the introduction to the loan application.)

THE CENTER STORE

"The oldest store in continuous service in Acton, Massachusetts"

We propose to purchase and upgrade the Center Store, in its original location, which will attract former customers and draw many new customers from surrounding towns with a wide range of food and gift items. Former customers will find a GENERAL STORE stocking many of the same items as the old store, including bread, cigarettes, candy, and cold cuts. All customers will also find a BOUTIQUE STORE, catering to the sophisticated and higher income population of Acton and surrounding communities, with gourmet and health foods, cooking utensils, and unique gift items. Our review of the town monograph and interviews with numerous residents have assured us of an ample number of customers for both types of store style, once the expanded product lines of the store become known.

Our extensive experience with similar stores, both in the city of Cambridge and in the nearby town of Sudbury, tells us that this store is needed in Acton and will be successful here. Remodeling the store will improve its attractiveness, while retaining the original colonial exterior will blend with community architecture.

INFORMATION SHEET

JIM BARISANO'S REASONS FOR CHOOSING THE ORIGINAL PRODUCT LINES

This information on opening product lines is based on Jim Barisano's original marketing research report. Read this information carefully as a guide to the chart on the following page.

WHY I CHOSE CERTAIN PRODUCT LINES

EXPERIENCE: My years of experience with management of the Cambridge Tea and Spice House branches and with Duck Soup show these items to be high sellers. I know how to sell these items and know the suppliers.

"BOUTIQUE": I think a boutique concept will sell well in Acton. There is no store in town selling a wide range of boutique items, from soaps to jewelry. The Center Store should look like a comfortable "today" gift shop, a place where customers will be encouraged to browse and see enough interesting items to keep coming back.

GENERAL STORE: The Center Store under its previous owners was a local general store and has only been closed a few months. It seems a good strategy to stock many of the same items it carried before in order to keep old customers and community goodwill. These staples will be items nearly everyone uses daily.

HIGH INCOME/SOPHISTICATED: The Town Monograph for Acton shows higher income and education levels than the rest of the county. People with these characteristics are more sophisticated and should prove good customers for items like gourmet and health foods and the more expensive boutique items.

NEED IN TOWN: My "on foot" research around town provided some basic information. There is no place in Acton to get a good sandwich, buy good cheeses, or buy gourmet or health foods. The store should stock these items.

STRONG IN SUDBURY: I compared the population data in the Acton and Sudbury town monographs. The two towns seem similar in many ways. Thus it is a good bet to stock items in Acton that are selling well at Duck Soup in Sudbury.

CREDIT AVAILABLE:* The suppliers of these items will offer me good credit terms on them. By stocking these items, I'll be able to offer a wider range of products with less strain on my working capital, leaving me a larger pool of cash to operate with.

TURNOVER:* When considering how profitable a line is, I don't just look at the mark-up. I watch how often the line "turns over." Often a line with a smaller mark-up that moves fast makes more money than a line with higher mark-up that sells slowly.

* Note: These items will be fully discussed in Section IX C.7 on cash flow

START-UP MARKETING RESEARCH -- SUMMARY FOR CENTER STORE

(Product lines were contained in the original marketing research report by Jim Barisano.)

Product Lines	ORIGINAL REASONS							
	Experience	"Boutique"	"General Store"	High Income/ Sophisticated	Need	Strong in Sudbury	Credit Available	High Turnover
1. Health Foods, Vitamins, Bulk Foods				X	X			
2. Gourmet Foods, Teas, Spices	X			X	X			
3. Coffees	X		X	X	X			
4. Candy, Fudge, Nuts	X		X			X		X
5. Cookware, Coffee Machines, Gadgets, Knives				X		X	X	
6. Stoneware, Mugs, Ashtrays	X	X				X	X	
7. Soaps, Candles	X	X				X		
8. Plants and Planters		X		X				
9. Wicker, Plastics		X		X				
10. Jewelry	X	X			X		X	
11. Paper goods			X					
12. Smoking Goods	X	X	X				X	
13. Pastry, Breads, Crackers, Miscellaneous Food			X	X		X		X
14. Milk, Cold Drinks			X					X
15. Sandwiches					X			X
16. Coldcuts, Cheeses	X		X		X			X
17. Newspapers			X		X			X

DATA FROM TOWN MONOGRAPH, ACTON, MASSACHUSETTS

POPULATION -- U.S. CENSUS

During the decade 1960 to 1970 the population of Acton increased by 7,532 or 104.1%. There was an excess of births over deaths of 1,637. During this same period there was a net immigration of 5,859 persons.

NUMBER OF PEOPLE

		Ratio to 1930	
Year	Number	Acton	Middlesex County
1910	2,136	86.1%	71.1%
1920	2,162	87.1	83.3
1930	2,482	100.0	100.0
1940	2,701	108.8	103.9
1945	2,869	115.6	109.3
1950	3,510	141.4	113.9
1955	4,681	188.6	119.3
1960	7,238	291.6	132.5
1965	10,128	408.1	136.9
1970	14,770	595.1	149.6

RACIAL DATA, 1960

		Percent of Total	
	Number	Acton	Middlesex County
White	7,205	99.5%	98.7%
Negro	20	.3	1.1
Other	13	.2	.2
Foreign Stock	1,994	27.5	40.5
Foreign Born	334	4.6	11.2

Of the 1,994 persons of foreign stock 42.4% were Canadian, 14.9% United Kingdom, 9.0% Irish, 8.0% Italian and 4.3% German

EDUCATION (Persons 25 Yrs. old & over)
(1960)

	Acton	Middlesex County
Median No. of School yrs. completed	12.7	12.1
Completing less than 5 grades	.8%	4.4
Completing High School or More	73.4%	53.8%

POLITICS, PARTY AFFILIATION, 1971

Total Registered Voters	5,747
Registered Democrats	12.6%
Registered Republicans	24.2%
Unenrolled Voters	63.2%

AGE COMPOSITION, 1960

Age	Male	Female	Total	Percent of Total
Under 5	719	627	1,346	13.2%
5-14	1,396	1,269	2,665	26.1
15-19	408	377	785	7.7
20-64	2,444	2,422	4,866	47.8
65 & over	194	332	526	5.2
TOTAL	5,161	5,027	10,188	100.0%

INCOMES OF FAMILIES, 1960

	Acton	Middlesex County
Incomes under $3,000	4.2%	9.5%
From $3,000-$5,999	22.5	30.0
From $6,000-$9,999	39.2	38.3
$10,000 and over	34.1	22.2
Median Income	$8,264	$6,853

OCCUPATION, 1960

Of the 4,512 persons 14 years old and over in Acton 2,603, or 57.7% were in the civilian labor force. Of these 72.0% were males and 28.0% were females.

		% of Total in	
Group	Number	Acton	Middlesex County
Prof., Tech. & Kindred	597	23.4%	15.5%
Mgrs., Off., & Prop.	337	13.2	8.8
Clerical, etc.	299	11.7	17.5
Sales	229	9.0	7.6
Craftsmen, Foremen, etc.	370	14.5	13.8
Operatives	332	13.0	18.1
Pvt. Hshld. Workers	37	1.4	1.4
Service Wkrs.	166	6.5	7.8
Laborers	62	2.4	3.5
Not Reported	123	4.8	6.0

DATA FROM TOWN MONOGRAPH, SUDBURY, MASSACHUSETTS

POPULATION -- U. S. CENSUS

During the decade 1950 to 1960 the population of Sudbury increased by 4,851, or 186.9%. There was an excess of births over deaths of 681. During this same period there was a net immigration of 4,070 persons.

NUMBER OF PEOPLE

Year	Number	Ratio to 1930 Sudbury	Ratio to 1930 Boston Met. Area
1910	1,120	94.8%	76.4%
1920	1,211	102.5	86.2
1930	1,182	100.0	100.0
1940	1,754	148.4	101.9
1945	2,051	173.5	106.7
1950	2,596	219.6	111.2
1955	3,646	308.5	113.1
1960	7,447	630.0	119.5
1965	10,894	921.7	120.0
1970	13,508	1,142.8	125.7

RACIAL DATA 1960

	Number	Percent of Total Sudbury	Percent of Total Boston Met. Area
White	7,416	99.6%	96.6%
Negro	22	.3	3.0
Other	9	.1	.4
Foreign Stock	1,710	23.0	41.8
Foreign Born	347	4.7	12.4

Of the 1,710 persons of foreign stock 38.2% were Canadian, 16.8% United Kingdom, 6.5% Irish, 12.8% Italian and 4.1% German

EDUCATION (Persons 25 Yrs. old & over) (1960)

	Sudbury	Boston Met. Area
Median No. of School years completed	12.8	12.1
Completing less than 5 grades	.8%	5.2%
Completing High School or More	75.7%	53.4%

POLITICS, PARTY AFFILIATION, 1971

Total Registered Voters	5,094
Registered Democrats	21.3%
Registered Republicans	29.3%
Unenrolled Voters	49.4%

AGE COMPOSITION, 1960

Age	Male	Female	Total	Percent of Total
Under 5	765	775	1,540	14.2
5-14	1,609	1,465	3,074	28.2
15-19	417	381	798	7.3
20-64	2,536	2,543	5,079	46.6
65 & over	179	224	403	3.7
TOTAL	5,506	5,388	10,894	100.0

INCOMES OF FAMILIES, 1960

	Sudbury	Boston Met. Area
Incomes under $3,000	7.4%	11.0%
From $3,000-$5,999	18.1	30.7
From $6,000-$9,999	37.4	37.0
$10,000 and over	37.1	21.3
Median Income	$8,538	$6,687

OCCUPATION, 1960

Of the 4,500 persons 14 years old and over in Sudbury 2,476, or 55.0% were in the civilian labor force. Of these 74.8% were males and 25.2% were females.

Group	Number	% of Total in Sudbury	% of Total in Boston Met. Area
Prof., Tech. & Kindred	631	25.7%	14.6%
Mgrs., Off., & Prop.	444	18.0	8.4
Clerical, etc.	284	11.5	18.7
Sales	250	10.2	8.0
Craftsmen, Foremen, etc.	287	11.7	13.1
Operatives	178	7.2	16.6
Pvt. Hshld. Workers	36	1.5	1.5
Service Wkrs.	113	4.6	8.9
Laborers	94	3.8	3.6
Not Reported	143	5.8	6.6

UNIT III: LOCATION

SUMMARY: The choice of location is one of the early and important decisions in establishing a small business. Through a simulation, the unit emphasizes the many factors involved in this decision, and models ways of conducting the necessary research.

STUDENT LEARNING OBJECTIVES:

- Identify common and specific criteria for business locations.
- Identify and consult appropriate sources of information.
- Analyze information on available locations.
- Select the locations which most closely meet the stated criteria.

STUDENT PROJECT WORK:

- Determine criteria for location of students' projected businesses.
- Identify available locations for projected businesses.
- Conduct research and analyze research findings to determine most suitable location for projected business.

TEACHING STRATEGIES:

Part A: Location Decisions: simulation (in Volume III)

Part B: It's Your Business (III): research, report

MATERIALS PREPARATION:

Part A: See simulation overview (and instructions in Volume III)

Part B: Duplicate "Criteria and Location Choices," "Research Summary"

MINI-PROBLEMS

Women and Minority Entrepreneurs:

4. "Michael Boone." Two white men pass up a black-owned restaurant because they feel they would not be welcome there; Michael Boone the restaurant owner, wonders how to attract white patrons to his restaurant.

Other Mini-Problems:

5. "Odd Jobs Service." Given a choice of being a publicity person, a treasurer, a coordinator, or a worker, students are asked to explain their preference in terms of their individual talents.

10. "Ambition." Students are asked to evaluate a statement about ambition in terms of its application to entrepreneurship and to themselves.

15. "Alice Niles." Confronted with an electrical inspector who is soliciting a bribe for passing substandard wiring in the tavern Alice is about to open, students decide what she ought to do.

24. "Drama in the Laundromat." Students are asked to put themselves in the place of the owner of a laundromat who has discovered that an employee has been stealing, and to decide what they would do about it.

42. "Beverage Business." Students propose advantages and disadvantages of expanding a drive-through beverage business to an additional location.

REFERENCES:

Vorzimer, Louis H. Using Census Data to Select a Store Site, Small Marketers Aid No. 154, Washington, D.C.: SBA, 1974.

Weber, Fred I. Locating or Relocating Your Business, Management Aids No. 201, Washington, D.C.: SBA, 1974.

Simulation Games and Gaming:

Heitzmann, Wm. Ray. Educational Games and Simulations, National Educational Association, Washington, D.C., 1974.

Livingston, Samuel A. and Stoll, Clarice Stasz. Simulation Games: An Introduction for the Social Studies Teacher, Free Press, New York: 1973.

Stadsklev, Ron. Handbook of Simulation Gaming in Social Education, Part I, Institute of Higher Education Research and Services, the University of Alabama, 1974.

PART A: OVERVIEW OF "LOCATION DECISIONS"

"Location Decisions" is a simulation game in which students obtain and evaluate information about several potential business locations in light of location requirements specific to their game businesses.

A simulation is a carefully designed learning activity that is intended to foster learning in a specific content area as well as provide practice in one or more basic skills. It is experiential learning, where the rules students follow and the roles they play approximate those found in the "real world." As such, simulations have a number of advantages: they are fun to play, they encourage students to experiment with different strategies and decisions in a no-risk environment, and they give players an immediate sense of what the similar situation in the real world is actually like.

In Location Decisions, the specific content area taught to students is the process for choosing a location for a small business; the basic skills practiced are problem solving by analysis and logic, decision making, and constructive group interaction to achieve a common goal. It simulates the research, analysis, and decision making a person must do to select an appropriate business location.

Students play the roles of small business partners selecting locations for a pharmacy, a hardware store, and a convenience food store. Each partnership of two or three students is provided with a description of its business and a list of location requirements. There are nine locations for rent, each with different characteristics; none is perfect. Players obtain information about the sites from maps--a street map of the community, maps showing the features of the immediate neighborhood as one would see them by driving past the site, and Chamber of Commerce maps showing demographic data such as crime rate, income, age and family status, and bus routes. They also obtain information about the locations from "Information Sheets" of six sorts:

- Personal inspection of building
- Walking tour of neighborhood
- City Planning Office
- Visit with former tenant
- Visits with neighbors
- Follow-up visits to location

Players are limited in the time they can spend to collect the information, with each source of information costing "time units." (In the real world, one's time is indeed limited.)

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When partners have obtained sufficient information and evaluated it, they make a first, second, and third choice of location. They then draw "chance cards" to see if they have gotten their first choices, to reflect the fact that in the real world this does not always happen. Partners fill out score sheets, in which scores are calculated on the basis of how appropriate the location is for their business (as shown in the "basis for location ranking" charts); the costs for rent, insurance, and needed renovations; and the time units used. The partnership with the highest resulting "sales prospect score" is declared the winner.

As game administrator, the teacher prepares the materials, introduces the simulation, monitors the use of time and materials, directs the scoring, and guides the discussion after the simulation.

The game requires four to six class periods to play, including introduction, play, scoring, and post-game discussion.

All game materials are contained in
Volume III, "Location Decisions."

PART B. IT'S YOUR BUSINESS (III)

Ask students to use the real estate section of the newspaper or realtors' listings to identify five possible locations for their own small businesses. With a few inquiries they should be able to narrow down their choices to three, which they will then research in detail. Ask students to follow the model of the simulation, beginning with a list of criteria for their businesses and proceeding to other sources of information.

Students should contact their project advisors for suggestions on location criteria.

Instruct them to use the worksheets and their own system of taking notes to record their findings.

LOCATION PROJECT WORKSHEET I

CRITERIA AND LOCATION CHOICES

Location Criteria
What sort of location does your business require? List the criteria.
1.
2.
3.
5.
6.
7.
8.
9.
10.

Location Choices	
Paste in the newspaper ad or copy the realtor's listing of each of the five locations you are considering.	
A.	
B.	
C.	
D.	
E.	

LOCATION PROJECT WORKSHEET II

RESEARCH SUMMARY

Location	Criteria met (use the numbers from Worksheet I as references)	Rent	Other Costs (security deposit, renovation costs)	Time Spent in Research	Sources* of Information
A					
B					
C					
D					
E					

* a. Street map
b. Chamber of Commerce
c. Drive past location
d. Personal inspection of building
e. Walking tour of neighborhood
f. City Planning Office
g. Visit with former tenant
h. Visits with neighbors
i. Follow-up visits to location

Locations Selected	Reasons for Choice	Drawbacks of Choice
First Choice Location____		
Second Choice Location____		
Third Choice Location____		

UNIT IV: PROMOTION

SUMMARY: Promotion, an element of the marketing mix, involves all the communication between a businessperson and his or her present and prospective customers. Promotion is important to a business at all times but it assumes increased importance for the small business, since it provides a link between the business and the consumer population.

STUDENT LEARNING OBJECTIVES:

- Explain the importance of personal selling techniques to the small business.
- Explain and give examples of five types of sales promotion: services, demonstrations, discounts, give-aways, and displays.
- Identify the basic components of a good advertisement.
- Identify elements of a promotional blend that could be used in a promotional campaign.
- Describe personal selling techniques.

STUDENT PROJECT WORK:

- Assess the costs and benefits of community relations activities.
- Produce a window display and interior layout.
- Assess costs and benefits of a range of sales promotional tactics and choose a mix.
- Research advertising media costs and benefits.
- Design an advertisement.
- Combine above elements into a balanced, realistic promotional campaign.

TEACHING STRATEGIES:

Part A: Introduction to Promotion: lecture, discussion

Part B: Personal Selling: discussion, role play

Part C: Community Relations: discussion

Part D: Sales Promotion: discussion

Part E: Advertising: discussion, worksheet, information sheet

PART F: It's Your Business (IV): flowchart, report

MATERIALS PREPARATION:

Part A: Duplicate "How Much is Enough?"

Part B: Duplicate "Personal Selling Techniques."

Part C: Duplicate "Community Relations Activities."

Part D: Duplicate "Checklist for Interior Arrangement and Display in Retail Outlets;" duplicate 2 per student, "Sales Promotion Mix."

Part E: Duplicate "Advertising Media," "Advertising," "Essentials of Good Newspaper Advertising," "Project Advertising."

Part F: Duplicate "Marketing and Promotional Campaign Flowchart."

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

5. "Yuriko Sumoto." A Japanese-American woman wonders how she can make business contacts and find people to give her business advice, since she is relatively isolated from traditional business circles.

Other Mini-Problems:

22. "The Pet-Rock Problem." Following the edifying examples set for us by the creators and promoters of "Pet Rocks," "Pure Vermont Bottled Air," and "The Nothing Book," students are asked to develop a promotional campaign for an equally useless item: leaves.

25. "Billboard." Students decide if a billboard that advertises the low rates of a hotel, but in unreadably small print effectively doubles the price of the rooms, is an ethical promotional device.

27. "Door-To-Door Selling." Students figure out how to repair the damage that has been done to a part-time cosmetics business conducted door-to-door, caused by customers' suspicion of door-to-door salespeople.

31. "Advertising Copy." Students devise advertisements for the same product in different media.

45. "Meg Wallack." A saleswoman in a clothing store achieves an excellent sales record by using a high-pressure personal selling technique; students decide if the technique is acceptable.

REFERENCES:

Fiske, Heidi, and Karen Zehring, "How to Start Your Own Business," Ms., April 1976, Section 6, "How to Sell Yourself: Graphics and Publicity."

Nelson, Robert E. and James A. Leach, Owning and Operating a Small Business, University of Illinois, Urbana-Champaign, 1976. Unit 10, "Advertising and Sales Promotion."

-----, Profitable Community Relations for Small Business, No. 27, Stock No. 045-000-0033-8, Small Business Administration. $0.70, Superintendent of Documents, Government Printing Office, Washington, D.C. 20402.

PART A: INTRODUCTION TO PROMOTION

. Write the definition of promotion on the board. Promotion, an element of the marketing mix, involves all the communication between a businessperson and her or his present and prospective customers. Promotion should be based on results of marketing research.

2. Emphasize the two main goals of promotion: (1) to create a good business image and (2) to stimulate sales of a product or service.

3. Explain that the goals of promotion can be achieved by the effective use of any one or a combination of the four techniques of promotion. Present the techniques, in the order they will be addressed in the unit, with definitions of each. As you do so, write them on the board.

   - Personal selling--Promotion through face-to-face contact between seller and prospective buyer;
   - Community relations--Involvement of businesspersons in community life, directly enhancing the image of the business and increasing goodwill, and indirectly affecting sales;
   - Sales promotion--Use of selling aids to attract potential customers and create an environment for higher sales; this includes the design and appearance of the store or office.
   - Advertising--Paid use of media in a non-personal promotion with an identifiable sponsor to increase sales and/or improve business image (unpaid use of media is publicity).

4. Ask students to give examples of each. Possible answers:

   - Personal selling--demonstrate use of product, answer customer questions, explain special services.
   - Community relations--sponsor Little League team, United Way fundraising, telethon contributions.
   - Sales promotion--free check-cashing, free samples, 2-for-1 sale, window displays, trading stamps.
   - Advertising--TV spot, flyer, ad in local newspaper.

5. Define promotional blend. Promotional blend is the combination of promotional techniques used by a business. It is different for every business because it depends on a business' target market, budget, and product or service lines. Tell students that, as their PROJECT REPORT in this unit, they will each develop a promotional blend for their own businesses.

6. Ask students to list some of the factors influencing promotional blend for a particular business. Cost, potential consumers, season, past

experience with promotion of specific types, product or service, competition, size of the business.

7. For practice in preparing a promotional campaign, tell students that they will design a campaign for a catering service. Before telling them the details of the business, stress that creativity in a promotional blend is most important here. Which activities, of the hundreds possible, would work best?

   Business Name: Moveable Feast Catering (3 employees)

   Customers: businesses (lunches), individuals, middle-to-upper income, ages 25-60

   Products: pastries, Italian dishes, coldcut trays, salad dishes

   Competition: a deli and another catering service; both advertise in local papers, deli also on radio

   Miscellaneous Information: you sent out flyers (not clearly successful), your promotion budget for the month is moderate, the month is November

   Divide students into small groups. Allow 10 minutes for each to suggest the most innovative promotional blend they can, with justification for their choices. Each group should report back. Check to see whether they have taken into account the factors listed in Point #6, above.

8. PROJECT REPORT Students, with the help of their advisors, set an initial promotion budget, using the Worksheet, "How Much is Enough?" Make the following points[1]:

   a. There is no one correct answer to the question of how much is enough money for promoting your business. Four common answers include:

      - Spend all that can be afforded.
      - Spend the same amount as the competition.
      - Spend a certain percentage of sales.
      - Spend only what is necessary.

   b. The best answer is to spend the amount which results in the highest profit. In order to know what that amount is, advertising costs must be budgeted, kept track of, and results evaluated.

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[1] Nelson, page 96, points "a," "b," and "c" are a direct quotation.

c. One way to evaluate advertising results in general is to watch the sales figure. If sales increase as a result of advertising, then it is paying off. When the point is reached where the extra cost of more advertising is greater than the increase in sales, then the business is spending too much on advertising. Another way to evaluate advertising is to ask customers where they found out about the product or service. Counts can also be taken before advertising and after advertising to measure any change in sales volume.

WORKSHEET

HOW MUCH IS ENOUGH?

Business: ______________________________ Advisor: __________________

You have two budgets to establish:

1. The initial promotion budget;
2. The monthly promotion budget, once your business is running.

1. Initial

Reasons for decision:

Amount: ____________________

2. Monthly

Reasons for decision:

Range: __________ - __________

Factors influencing size of promotion budget

Student(s): ____________________________________ Date: ______________

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PART B: PERSONAL SELLING

1. Discuss personal selling as one of the most important promotional techniques available to the small businessperson. It is crucial to maintaining old business and attracting new business through word of mouth. Personal selling involves a face-to-face relationship between the prospective buyer and the seller. The salesperson has the responsibility of making a sale that satisfies both the customer and the business and of creating a good image for the business.

   The human element of personal selling gives this technique of promotion advantages over the other techniques (advertising, public relations, and sales promotion). Salespeople can adapt their sales pitch to individual needs and can answer the customers' questions or demonstrate the product. The disadvantage of using personal selling is the difficulty and expense of training salespeople.

2. Write on the board and discuss the definition of a good salesperson: a person who (1) is responsive to the needs of the customer, (2) is familiar with the products, and (3) creates the appropriate image for the business.

3. Ask the students if they can think of a store they dislike doing business with because of the behavior of the salespeople.

4. Outline the five basic steps of selling on the board. If a customer enters a business knowing exactly what he or she wants to buy and intending to buy it, there is little for the salesperson to do other than direct the customer to the product or service and complete the transaction. However, if a customer is undecided, the salesperson must follow the five basic steps of selling. First, greet the customer. Second, discover the customer's needs and wants. Third, present the benefits of the product or service to the customer and help him or her examine it. Fourth, answer questions and answer objections positively. Fifth, close the sale. Each step must be performed with courtesy, patience and honesty.

5. PROJECT REPORT Distribute Worksheet, "Personal Selling." Explain that through observation of personal selling techniques employed in businesses similar to their project business, students should be better able to focus on selling techniques they will employ.

   Students should select three local businesses that are similar to their own. As their assignment is to observe the personal selling techniques of the salespeople, they will have to pretend to browse through the merchandise or pretend to be interested in a particular product or service in order to gain the time in which to observe. Ask them to watch for the following:

   a. Did the salesperson try to find out the customers' needs and wants?

b. Did the salesperson state the benefits one could derive from buying the product or service?

c. Did the salesperson overcome objections in a positive way?

d. How did the salesperson attempt to close the sale?

e. Did the salesperson behave in a polite, ethical, and knowledgeable manner at all times?

Students should complete the worksheet and be prepared to discuss it at the next class: the worksheet asks them to report their three observations and then to conclude what personal selling techniques they will want for their own businesses.

WORKSHEET

PERSONAL SELLING TECHNIQUES

Observation #1: (name, location) ______________________________

(products or services) ______________________________

Selling Techniques:

____

Observation #2: (name, location) ______________________________

(products or services) ______________________________

Selling Techniques:

____

Observation #3: (name, location) ______________________________

(products or services) ______________________________

Selling Techniques:

____

____

PROJECT BUSINESS (aspects of personal selling most desirable for the business):

Name(s)______________________ Business______________ Date __________

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PART C: COMMUNITY RELATIONS

1. Define "community relations." Community relations (often called public relations) involves the kinship of businss with the political, education, commercial, and charitable life of the community. Civic-mindedness creates a desirable company image, promotes customer goodwill, and ultimately affects sales favorably by developing loyalty between consumer populations and the business.

2. Discuss the ways community relations can affect sales favorably. What is good for the community is good for business. It is good business in the short run because people like to deal with firms that are community-conscious and assume their rightful share of responsibility for the future of the whole community. It is good business in the long run because the company that is dynamically interested in a community and that is productive in its development will have a far greater chance of building a strong community-based market than will a business venture that is clearly interested only in the customer's dollar.

3. Elicit examples of community relations activities which are open to small business, or examples of students' public relations experiences. Examples would include:

   - making outright charitable contributions or buying tickets to charitable events
   - participating in community fund-raising drives
   - offering on-the-job training and summer employment for local students
   - paying for community-oriented advertisements in local newspapers or fund-raising booklets
   - sponsoring an athletic team, such as Little League, or an adult bowling team
   - participating in education programs
   - sponsoring cultural activities such as "little theater" groups
   - joining the Chamber of Commerce

4. Point out that community relations activities may require a significant investment of time or money, both of which are very scarce in the first years of a new business venture. The entrepreneur must weigh carefully how much time or money can actually be contributed without placing an undue burden on the business. The small businessperson can, however, make small contributions.

5. Stress that community relations activities are not merely a tool for increasing profits. Those who approach community relations without any immediate thought of direct sales promotion find the activities can be a rich source of goodwill leading to an increase in local customers.

6. Ask students to consult their advisors for answers to the following questions:

   a. Does the advisor engage in any community relations activities?

   b. If not, why not?

   c. If yes, which activities? How much time, effort and cost are involved?

   d. If yes, what benefits to the business has he or she seen? What benefits to the entrepreneur?

7. PROJECT REPORT Students list two to five community relations activities that are realistic for their business, estimate the effort, time and cost involved, and state possible benefits, using worksheet, "Community Relations Activities." (This activity can be done in class or as homework. You may wish to discuss especially innovative answers in class.)

WORKSHEET

COMMUNITY RELATIONS ACTIVITIES

Business:

Student(s):

Date:

Nature of Activity	Effort, Cost, Time Involved	Possible Benefits

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PART D: SALES PROMOTION

1. Define sales promotion. Sales promotion is a broad term for strategies which supplement and coordinate with advertising and personal selling, by providing selling aids and creating an environment to promote sales. A supportive promotional effort includes those activities which stimulate consumer purchasing and attract and hold the attention of potential customers.

2. Ask the students for examples of promotional aids, based on their experiences. Examples might include sales promotions of the following five types, or combinations of them:

- Services:

  free checking
  repair work at laundry
  grocery store carry-out
  delivery of dry cleaning
  motel service (kennel for pets, no extra charge for children under 12, free morning coffee)
  guarantees, warranties
  Santa Claus
  phone booth in a drug store

- Demonstration:

  vacuum cleaner demonstrations
  test drives in cars, snowmobiles
  sewing machine class
  open house at dance studio

- Discounts:

  coupons
  all-you-can-eat specials
  rebates on small appliances (from manufacturers)
  discounts on new magazine subscriptions
  special sales (2-for-1, etc.)
  discounts on charges at parking lots (in urban areas)

- "Give-aways":

  free samples at bakery
  gifts with new savings account deposits
  Welcome Wagon (gifts to new neighbors)
  free bus service for senior citizens
  free tickets to ball games for preferred customers
  free records, tickets, etc. (radio station, for merchants)
  birthday cakes in restaurants

- Displays:

  in window
  at point-of-purchase
  seasonal banners
  signs

- Combinations of the above:

  free gift-wrapping (service and give-away)
  free clinic at plant store (service and demonstration)
  community sidewalk sale (with carnival rides, etc.) (discount and display)

3. Distribute and discuss the Information Sheet, "Checklist for Interior Arrangement and Display."

4. Describe the various categories of goods:

   - Convenience goods: those goods that a business' target customers buy regularly and without much thought. Convenience goods may be further classified as:

     -- impulse goods: something that a customer hadn't planned to purchase (e.g., chewing gum at a check-out counter)

     -- staples: items used regularly, such as food and health aids

     -- emergency goods: items unexpectedly needed such as an umbrella on a rainy day.

   - Shopping goods: expensive items worth comparison shopping (e.g., cars, jewelry, kitchen appliances) to obtain good quality, price, service, and/or warranty

   - Unsought goods: items that are new on the market and relatively unfamiliar to consumer (e.g., yoghurt cake, graphite motor oil, a new toothpaste)

   - Specialty goods: a brand name item that consumers insist on (e.g., Morton's salt, Vera scarves, Adidas sneakers).

   These categories often overlap, however. A customer might spend considerable time shopping for a fine umbrella, or buy a brand name food item (salt) on an impulse, or in an emergency. These categories are intended to clarify how products will be marketed, and must be adapted to the changing marketplace.

5. Discuss the appropriate or best arrangement of goods in a store setting. Ask the students where to locate impulse goods. Impulse goods should be placed near the front of the store and interspersed with demand products so that as many people as possible will see them. Impulse goods should not be located directly across the aisle from demand items that most customers are looking for,because the customer may not see impulse item at all. Ask the students where to locate shopping goods. Shopping goods should be placed in sections with less traffic that are reached after passing impulse and convenience items (in retail stores which sell all varieties of goods).

   The instructor may want to draw a sample store layout on the board and have students locate goods in it according to the principles of display outlined in the checklist.

6. Discuss the effect of sales promotion, particularly display, on small business sales. Point out the relatively low cost-benefit ratio: sales promotion can be inexpensive and effective if well-designed. For example, in a group of assorted independent stores, one out of four

sales were made because of the way merchandise was displayed to potential customers, according to a survey sponsored by the National Retail Merchants Association.

7. PROJECT REPORT Assign students to produce a window display drawing and an interior layout showing location of goods in the store and the store window, for their own business. Graph paper is a useful aid in "mapping" goods in the store to scale. Stress that the results will not be judged on the basis of artistic skill but on imagination, creativity, and use of the basic principles of display. This assignment is to be done outside of class. Students should be encouraged to present a preliminary version of both the window display and interior map to their advisors and to incorporate their suggestions in the versions turned in.

   The drawings and/or maps of display plans should be viewed by the class during a subsequent meeting for student comment and review.

8. PROJECT REPORT After completing Point #7 above, students research local costs for a variety of promotional strategies and choose the ones most appropriate for their budget using the "Sales Promotion Mix" worksheet. Give out worksheets (two per student) and give examples in the worksheet format on the board, such as the following for a small clothing store.

Category	Description	Why, How Chosen	Cost		
			Time	Effort	Money
display	"1920's Look" window display	1. Customers want a complete "look" 2. Overstock of 20's style jewelry 3. 20's look is popular this year	5 hours	set up window display and more "20's look" clothes and jewelry to front	new mannequin, rented at $35/week, with option to buy
discount	20% off if customer purchases full outfit (4 or more pieces)	1. Markup is 50% 2. Most customers now buy only 1 item 3. Just introduced lines of scarves and shoes	4 hours	reorganize in-store display to focus on full outfits, make signs	15% of such sales, but expect increased sales

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INFORMATION SHEET

CHECKLIST FOR INTERIOR ARRANGEMENT AND DISPLAY IN RETAIL OUTLETS

Layout

1. Are your fixtures low enough and signs placed so that customers can get a bird's-eye view of the store and tell where to go for wanted goods?

2. Do your aisle and counter arrangements tend to stimulate a circular traffic flow through the store?

3. Do your display cases (fixtures and their arrangement), signs, lettering, and colors all create a coordinated and unified effect?

4. Before any supplier's displays are accepted, do you make sure they conform in color and design to what you already have?

5. Do you limit the use of hanging signs to special sale events?

6. Are your counters and aisle tables not overcrowded with merchandise?

7. Are your ledges and cashier/wrapping stations kept free of boxes, unneeded wrapping materials, personal effects, and odds and ends?

8. Are trash bins out of sight?

Merchandise emphasis

1. Do your signs referring to specific goods tell the customer something significant about them, rather than simply naming the products and their places?

2. For your advertised goods, do you have prominent signs, including tear sheets at the entrances, to inform and guide customers to their exact location in the store?

3. Do you prominently display both advertised and nonadvertised specials at the ends of counters as well as at the point of sale?

4. Are both national and local brands highlighted in your arrangement and window display?

5. Wherever feasible, do you give the more colorful merchandise in your stock preference in display?

6. In the case of apparel and home furnishings, do the items that reflect your store's fashion sense or fashion leadership get special attention at all times?

7. In locating merchandise in your store, do you always consider the productivity of space--vertical as well as horizontal?

8. Is your self-service merchandise arranged so as to attract the customer and assist her or him in selection by the means indicated below:

    a. Is each category grouped under a separate sign?

    b. Is the merchandise in each category arranged according to its most significant charaacteristic--whether color, style, size, or price?

    c. In apparel categories, is the merchandise arranged by price lines or zones to assist the customer in making a selection quickly?

    d. Is horizontal space usually devoted to different items and styles within a category (vertical space being used for different sizes--smallest at the top, largest at the bottom)?

    e. Are impulse items interspersed with demand items and not placed across the aisle from them, where many customers will not see them?

WORKSHEET

SALES PROMOTION MIX

Business: ________________________________

Category (services, demonstrations, discounts, "give-aways", displays	Sales Promotion Description	Why, How Chosen	Cost		
			Time	Effort	Money

Student(s) ______________________________ Date ____________

PART E: ADVERTISING

1. Focus on advertising as one important type of promotion. Define advertising as: any form of paid, non-personal promotion that has an identifiable sponsor and that usually communicates with a large number of people at the same time, e.g., television commercials, radio commercials, newspaper and magazine advertisements, flyers or widely distributed advertising pamphlets.

2. Discuss how colors, sizes, novelty, humor, etc., are utilized in advertising deliberately to motivate consumers to try a product or service. Discuss how advertising produces an image for a business.

3. Elicit additional examples of advertising that students are familiar with: flyers, direct mailings, bus placards, advertising specialties (e.g., calendars, ashtrays, matches, and pens imprinted with an advertising message), billboards.

4. Discuss how to set up an advertising program as one part of a promotional mix. Once you know what you want to advertise, determine (1) the target market you want to reach and (2) how you can best reach it. For example, if your target market is middle-income homemakers, find out where they live, which newspapers they read, which radio stations they listen to. Then, if more than one paper or station covers much the same territory, find out circulation and audience figures, comparing cost of advertising per 1,000 readers or listeners, before you place any ads.

5. Discuss how to choose media. The advertising medium (singular) or media (plural) which a businessperson chooses to transmit his or her message depends on (1) the type of message to be transmitted; (2) to whom the message is transmitted; (3) where these people are located; and (4) cost.

6. Distribute the Information Sheet, "Advertising Media."

7. Discuss the media in terms of (1) small business cost constraints, (2) the type of message most adaptable to the media, (3) the size and makeup of the target market, (4) flexibility, (5) effectiveness. Ask these questions:

    a. Which medium would be best suited to advertise an all-you-can-eat special to high school students? A white sale to homemakers? A rock concert?

    b. Which medium is best for transmitting ideas (i.e., pollution control, political candidates, cancer checkups, auto safety)? Why?

    c. Which medium is best to use for a small target area?

d. Which medium is most restricted in message length (number of words)?

e. What are some of the disadvantages of each medium?

8. Write on the board the qualities of a good advertisement:

- informative
- simple
- truthful
- emphasizes important features
- imaginative
- attractive and pleasing

9. Display several advertisements to the class and have students pick out the good and bad ones. Ask students to explain their decisions. Ask students to suggest how they might be improved. Try to use exemplary ads first to serve as a basis for assessing what a good ad is. A good source is Advertising Age which selects the ten best advertisements every year.

10. Ask students to identify the three major sections of each advertisement.

- Introduction--attracts attention.
- Body--gives details concerning the product or service and creates an interest or desire.
- Closing--calls for action, motivates the customer to buy.

11. Distribute and assign "Advertising" as a Student Worksheet to be completed by the students out of class. Also distribute the information sheet "Essentials of Good Newspaper Advertising." Explain to the students that this will help them evaluate the effectiveness of the advertisements.

12. Review the student worksheets in class, focusing on how advertisers used the three major sections of an advertisement.

13. **PROJECT REPORT** Tell students they will be designing advertising to use in opening their own businesses. Explain that in reality more than one advertising medium will probably be chosen but that students are asked to give details on only one here.

Distribute the Project Worksheet, "Advertising." Outline the five steps necessary to arrive at a usable ad:

1. Identify the image of the business you want to project on opening your business based on your products or services and the customers you want to attract.

2. Brainstorm the range of advertising techniques which could meet your needs, ignoring cost for the time being.

3. Discuss with your advisor what a reasonable advertising budget for the first month of your business would be. Clarify why the amount was chosen.

4. Research the advertising media costs and benefits identified in Step 2. The Yellow Pages and a telephone should be adequate. Compare the different media costs. Eliminate those beyond your budget.

5. Choose one medium and design the ad you would use, including illustrations, copy, etc.

Then transfer the results to the "Advertising" Worksheet.

14. Introduce publicity as a means of achieving advertising goals for "free." Publicity activities involve provision of information to the media in the form of news. Ask students what are the elements in successful publicity, and what are the hidden costs.

Answer: elements:
- creativity (e.g., finding an "angle" that is news)
- choosing the appropriate medium (local paper may be best)
- willingness to keep trying

costs:
- time to create the publicity and "sell" it
- cost of hiring a publicist, if you can't do your own
- duplication, postage, phone costs

15. Have students group by project businesses. Allow 10 minutes for each group to come up with a publicity "angle." Ask a representative of each project to "sell" his or her angle to the class.

Examples:
- beautician provides free hairstyling to residents of home for the aged;
- clothing shop hires African student to model new line of clothes from Africa;
- you open the only business in town owned jointly by three women:

- in cooperation with the League of Women Voters, you develop a checklist for toy safety and offer your toy store for a first tryout of the list;
- you offer a "morning after" housecleaning service, which includes a Continental breakfast.

INFORMATION SHEET

ADVERTISING MEDIA

PRINT MEDIA

NEWSPAPER ADVERTISING

- reaches a large number of people
- has a short life span
- is relatively inexpensive for the number of people reached
- is easily and quickly changed
- can be placed in a particular section of the paper to reach a selected audience
- is priced according to

  --circulation area (national, city, suburban, neighborhood)

  --frequency of publication (daily, Sunday, weekly)
- can reach a special interest group or a special ethnic group in a newspaper aimed at that audience
- is available in various sizes
- is available in several formats:

  --as display or classified advertising in regular editions

  --as inserts to regular editions

  --as special editions, such as shoppers' guides

MAGAZINE ADVERTISING

- reaches a selected audience ("target market vehicle")
- has a relatively long life span
- may be circulated among several readers
- must be planned and purchased in advance of publication date
- is available in various sizes

- is available in several formats.

  --as display or classified advertising

  --as card inserts in regular editions

- is more exponsive than newspaper advertising

DIRECT MAIL

- reaches a selected audience
- is expensive for the number of people reached
- is likely to be kept and/or posted
- has special uses:

  --soliciting mail-order or phone-order business

  --announcing new products or changes in products, services

  --notifying customers of price changes

  --preceding or following up a salesperson's call

  --welcoming new customers

  --regaining lost customers

  --thanking customers for their patronage

  --reminding customers/prospects of seasonal or periodic needs

  --announcing special events such as features sales

  offers a great variety of formats:

  --catalogues

  --circulars

  --letters

  --flyers

  --brochures

  --coupons

  --inserts

  --cards

DIRECTORIES

- reach people who have already decided to buy
- have a relatively long life span
- list products or services alphabetically
- list names of businesses alphabetically
- are available as:

  --general industrial directories

  --directories limited to a single industry, trade, or profession

  --directories for single or related groups of products

  --The Yellow Pages

  --catalog files
- offer little variety in format

TRANSIT ADVERTISING

- appears on buses, trains, subways, taxis, and in stations, depots, and airports
- can appear in single or multiple locations
- has the following formats:

  --car cards (interior and exterior)

  --posters

  --clocks

  --displays
- is expensive, compared to other print media

NON-PRINT MEDIA

RADIO ADVERTISING

- is usually local
- reaches a preselected audience
- is relatively expensive
- can be changed frequently
- must be repeated frequently
- is priced according to:

  --length of message

  --time of broadcast

  --frequency of broadcast
- is limited to brief copy
- is either read live by the announcers or is taped in advance by radio station personnel, the advertiser, or by an actor or singer

TELEVISION ADVERTISING

- reaches large marketing areas and specific large audiences
- may be done in cooperation with national advertisers
- is relatively expensive
- is priced according to:

  --length of message

  --time of broadcast

  --frequency of broadcast

  --time of year

  --whether station in independent or member of a network
- is limited to brief copy
- must be repeated frequently
- is usually a highly professional production

- can incorporate several art forms

ADVERTISING SPECIALTIES

- are likely to have relatively long term use and visibility
- have special uses:

--as seasonal gifts

--as reminder advertising

--as tokens of appreciation for patronage

- are decorative and/or useful in format
- offer a great variety of formats:

--matches

--calendars

--pens and pencils

--T-shirts

--balloons

--buttons

--bumper stickers

--decals

--clocks

OUTDOOR ADVERTISING

- has high exposure
- is especially good for products related to travel or outdoor living
- must conform to community and government regulations
- is available in the following formats:

--posters

--billboards

--electronic signs

--skywriting

--banner towing

INFORMATION SHEET

ESSENTIALS OF GOOD NEWSPAPER ADVERTISING

Merchandise	Does the ad offer merchandise having wide appeal, special price features, and timeliness?
Medium	Is a newspaper the best medium for the ad, or would another--direct mail, radio, television or other--be more appropriate?
Location	Is the ad situated in the best spot (in both section and page location)?
Size	Is the ad large enough to do the job expected of it? Is it larger than necessary?
Headline	Does the headline express the major single idea about the merchandise advertised? The headline should usually be an informative statement and not simply a label. For example, "Sturdy shoes for active girls, specially priced at $6.95," is certainly better than "Girls' shoes $6.95.
Illustration	Does the illustration (if one is used) express the idea the headline conveys?
Merchandise Information	Does the copy give the basic facts about the goods, or does it leave out information that would be important to the reader? ("The more you tell, the more you sell.") Is it overcrowded with unnecessary information?
Layout	Does the arrangement of the parts of the ad and the use of white space make the ad easy to read? Does it stimulate the reader to look at all the contents of the ad?
Human Interest	Does the ad, through illustration, headline, and copy, appeal to customers' wants and wishes?
"You" attitude	Is the ad written and presented from the customer's point of view (with the customer's interests clearly in mind), or from the store's?
Credibility	Does the ad ring true, or does it perhaps sound exaggerated or somewhat phony?
Typeface	Does the ad use a distinctive type style--different from those of competitors? Is the type consistent within the ad? From ad to ad?

Spur to Action	Does the ad stimulate prompt action through devices such as use of a coupon, statement of limited quantities, announcement of a specific time period for the promotion or impending event?
Sponsor Identification	Does the ad use a specially prepared signature cut layout, or type, that is always associated with the store and that identifies it at a glance?
Details	Does the ad always include the following details: store location, hours open, telephone number, location of advertised goods, and whether phone and mail orders are accepted?

WORKSHEET

ADVERTISING

Select three magazine or newspaper ads for a service or product similar to your project business' (i.e., three clothing ads, three liquor ads, three car ads, etc.). Tape each ad on a separate sheet of paper, then write below it answers to the following questions:

1. What is the total product being marketed (i.e., physical + psychological values)?
2. To what target market is the ad directed?
3. Where might this ad appear?
4. What is the basic purpose of the ad?

    --to inform the consumer about the product

    --to persuade the consumer that they need the product and that they should buy it

    --to remind the consumer of the product

5. Is the ad's message effective? Why or why not?
6. Which "essentials" make this ad effective?
7. How could it be improved?
8. What does this ad unintentionally tell you about the advertiser? (For example: "All prices slashed 10-50% "might indicate the business is in need of cash immediately.)

After you answer all eight questions for each of your ads, compare the effectiveness of the ads on a separate sheet of paper.

PROJECT WORKSHEET

ADVERTISING

Business: ______________________________

Image:

Advertising Budget (Figure and Reasons):

Media Rejected:	Cost	Why Rejected

Medium Chosen:

Cost/month ______________________

Source(s) of information ______________

Drawbacks:

Advantages:

(Attach ad copy)

Student(s) ______________________ Date ______________

PART F: IT'S YOUR BUSINESS (IV)

1. Explain to the class that they have now covered the major areas of marketing: marketing research, identifying target markets, products, competition, location, and appealing to the consumers through promotional activities. The students can now use this information to create a unified promotional campaign for their project business, with the work to be done outside of class. The final "product" of the project will be a "Promotional Campaign Plan." Each plan should contain:

   a. a description of the project business and of the target market(s) (revised from Unit II, Part F);

   b. summarized from work done in parts B, C, D and E of this Unit:

      (1) identification of the various media for the promotional message which will reach the greatest number of target group people, with an explanation or justification of the choices of media;

      (2) an estimate of the costs associated with each promotional activity, based on the actual costs as indicated by local radio or newspaper, printers, the Yellow Pages, supplier's display racks, wholesaler's or manufacturer's special promotions. (The student should have called or visited most of these sources to obtain or estimate the current rates.);

      (3) a final list of all the promotional techniques selected for use--the promotional blend;

   c. a draft version of some of the actual promotional materials from Part E of this unit, which may consist of a script for a radio commercial, the text of a newspaper ad or flyer, or other materials appropriate to the student's specific promotional plans. For promotion demonstration activities or sales incentives, a short description of each will be adequate (e.g., a description of a demonstration for a kitchen device, a description of coupon offers).

2. For this project, each student should remain within the initial promotion budget agreed upon with his or her advisor in Part A. Ask students to provide examples of the costs involved in promotional schemes. Glossy magazine advertisements and advertisements on major television stations are very expensive and are likely to be beyond the budgetary limitations of the small business. Advertisements in neighborhood newspapers, promotional schemes, window signs, etc., are of moderate cost and may be effective in reaching the target population of the small business. Personal selling, good arrangement of products, publicity, community involvement, etc., are virtually free promotional techniques. Personal selling may be the most effective technique.

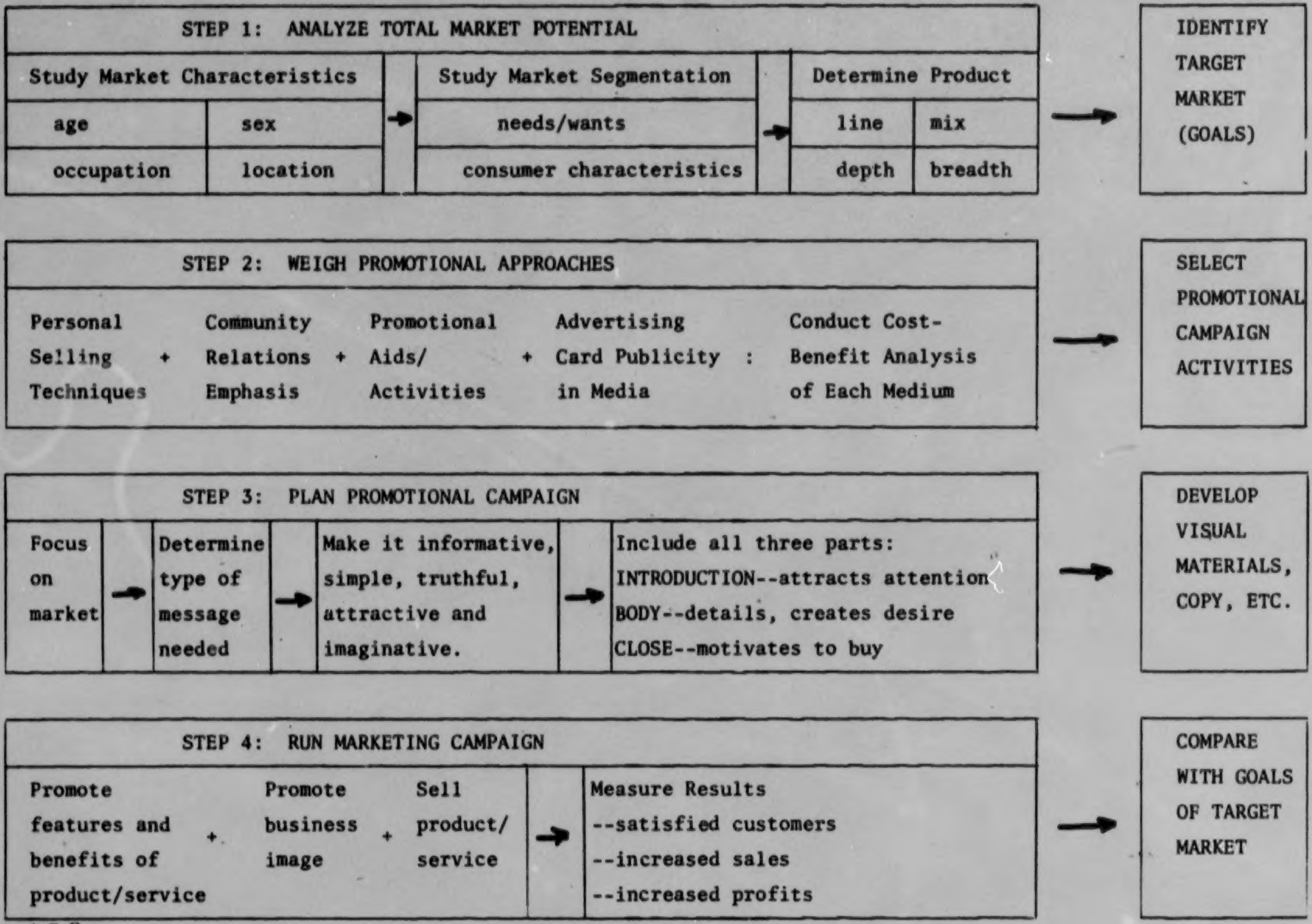
3. Students may use any resources that they can think of for assistance in this project, including advisors, trade journals, advertising journals, information obtained from other entrepreneurs, etc. Students should consult their advisors with a draft of their "Promotional Campaign Plan." Advisors should be excellent sources for appropriateness of campaign to business, completeness, and quality of the materials.

   Stress that the project will be evaluated for its creativity, its use of marketing and promotional principles, and its adherence to the budget limitations of each project's budget. The campaign should be simple and well thought out--students should have a reason for every promotional strategy used. The appearance of the materials is less important than the quality of thinking that has gone into the production of each item.

4. Distribute the "Marketing and Promotional Campaign Flowchart." Stress that this is a problem-solving approach that can be done for one, a few, or all products and services a business provides. The chart should serve to summarize and review the separate project segments and materials of the first four units.

5. Collect and review the promotional campaign "products." Display those projects that show unusual flair, imagination, or thought so that the class can review the best of the materials produced.

MARKETING AND PROMOTIONAL CAMPAIGN FLOWCHART



STEP 1: ANALYZE TOTAL MARKET POTENTIAL

Study Market Characteristics: age, sex, occupation, location → Study Market Segmentation: needs/wants, consumer characteristics → Determine Product: line, mix, depth, breadth → IDENTIFY TARGET MARKET (GOALS)

STEP 2: WEIGH PROMOTIONAL APPROACHES

Personal Selling Techniques + Community Relations Emphasis + Promotional Aids/ Activities + Advertising Card Publicity in Media : Conduct Cost-Benefit Analysis of Each Medium → SELECT PROMOTIONAL CAMPAIGN ACTIVITIES

STEP 3: PLAN PROMOTIONAL CAMPAIGN

Focus on market → Determine type of message needed → Make it informative, simple, truthful, attractive and imaginative. → Include all three parts:
INTRODUCTION--attracts attention
BODY--details, creates desire
CLOSE--motivates to buy
→ DEVELOP VISUAL MATERIALS, COPY, ETC.

STEP 4: RUN MARKETING CAMPAIGN

Promote features and benefits of product/service + Promote business image + Sell product/ service → Measure Results
--satisfied customers
--increased sales
--increased profits
→ COMPARE WITH GOALS OF TARGET MARKET

UNIT V: SYSTEMS AND RECORDS

SUMMARY: In order to keep track of a business' revenues, expenditures, inventory, payroll, and payroll deductions, the entrepreneur must develop a complete record-keeping system for both day-to-day and long range documentation of the business' operations.

STUDENT LEARNING OBJECTIVES:

- Explain the functions of record-keeping in inventory, payroll, in tracking revenues and expenditures, and in personnel.
- List and describe the basic forms which provide documentation of the business' operations.

STUDENT PROJECT WORK:

- Decide on a credit policy for the business and explain the decision.
- List forms needed at the start of the business and explain their uses.
- List forms essential five years after start-up and explain why they will be needed.
- Determine information to be included on each of the forms.
- (Optional) Design three essential record forms for the business.

TEACHING STRATEGIES:

Part A: Administrative Systems and Records: lecture, class exercise, and homework project.

Part B: Financial Systems and Records: 1) Procedures for Recording Revenues from Sales: lecture 2) Recording Expenditures for the Business: lecture; 3) Completing the Forms for Revenues and Expenditures: class exercise, homework project.

Part C: Personnel Records: lecture, classroom exercise, and homework project.

Part D: It's Your Business (V): as homework, students decide on information needs, then choose or design business forms for their project businesses.

MATERIALS PREPARATION:

Part A: Duplicate the Information Sheet, "Purchasing and Shipping," "Vendors in the Yellow Pages," "Tracking the Merchandise," "Case Study for Business Records," "Company Order Form," "Daily Receiving Log," "Sales Slip Forms," "Semi-Annual Inventory Sheet," and prepare three copies per student of "Invoices."

Part B: 1. and 2.: no preparation.

3. Duplicate the In-Class Case Study, "Recording Revenues and Expenditures," "Forms for In-Class Exercise" (6 pages), Homework Case Study, "Recording Revenues and Expenditures," "Monday to Friday: Daily Forms" (5 pages), "Weekly Forms" (page 1--2 copies per student; pages 2-5--1 copy per student).

Part C: Duplicate "Personnel Records Fact Sheet," "Payroll Register," "Federal Income Tax Witholding Schedule," "Social Security Employee Tax Table." Duplicate two copies per student, "Employee's Witholding Allowance Certificate" and "Employee's Earning Record."

Part D: Duplicate information sheet, "It's Your Business (V)."

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

6. "Yvette Burke." Yvette Burke is faced with the necessity of earning more money when she is divorced after 23 years of marriage; she analyzes her skills identifies small businesses she might be interested in.

Other Mini-Problems:

17. "Leonard Nessman." Students devise a security system for Leonard Nessman, a watchmaker, to protect the watches he repairs while they are in his possession.

20. "Gentle Inferno." Herb, the owner of a hardware store, must decide whether to stock artificial fireplace logs characterized as "new and improved" to justify their higher selling price, even though the changed formula actually results in lower production costs to the manufacturer.

28. "Recordkeeping." Students devise an inventory system for a clothes resale shop.

41. "Tricycles." Students take the roles of a manufacturer of metal tricycles, who is forced to go out of business, and his or her employees.

43. "Drug Store Chain." Students decide which information needs in a chain of ten drug stores would benefit from a uniform recordkeeping system, and if there are any records best kept on an individual store basis.

REFERENCES:

Beaumont, John A. et al. Your Career in Marketing. McGraw-Hill Book Company, 1976.

Breibart, Joan, and Edward Smykay. Introductory Marketing: A Programmed Approach, New York: The MacMillan Company, 1971.

______________, "Improving Material Handling in Small Business," Small Business Management Series No. 4, Stock No. 045-000-00041-9, Washington, D.C.: Small Business Administration.

______________, "Financial Recordkeeping for Small Stores," Small Business Management Series No. 32, Stock No. 045-000-00142-3, Washington, D.C.: Small Business Administration.

______________, Your Business Tax Kit, Department of the Treasury, Internal Revenue Service.

PART A: ADMINISTRATIVE SYSTEMS AND RECORDS

A.1 Business Systems and Procedures

1. Explain to the class that a business must have a systematic procedure for ordering new merchandise or supplies, keeping track of the merchandise that they have on hand, documenting the sale of merchandise, and tracking customer payments. Point out that different businesses have different requirements for ordering, taking inventory, and maintaining sales records. For example:

   - A drug store or a hardware store may have thousands of small items which must be inventoried on a detailed basis while a rug cleaning business has little need for such a procedure.

   - A grocery store which carries perishable goods will be concerned with the date that inventory was received, while a furniture store is less concerned with the time factor.

   - A retail store offering credit will need a detailed sales record for merchandise to ensure that the customer is charged for exactly what was purchased, while a supermarket deals entirely on a cash sale basis.

2. Tell the students that once a business is established, orders are generally placed with the same set of vendors. The business does not usually "shop around" for each purchase in the same way a retail customer "shops around." The reasons for this include:

   - Inefficiency in the expenditure of time looking for new vendors for each new order.

   - The special relationships which are accrued over time in doing business together. For example:

     -- The vendor's sales representative may provide the retailer with specific services such as inventorying, ordering when the vendor's supplies run low in the retail store and offering credit.

     -- The vendor's sales representative may provide the retailer with information about new products or future products which will appear on the market.

     -- The vendor's sales representative may provide materials for or actually set up promotional displays in the store, and may share the cost of advertising.

   These relationships vary with the type of business and the type of product or service being purchased.

3. Ask the class for examples of instances when a retailer may wish to find new vendors. These might include:

   - Dissatisfaction with a particular line or brand or products supplied by the vendor, who can offer no substitute.
   - Lack of sufficient credit line offered by the vendor.
   - A new line of products which are not carried by the vendor.
   - Better prices or special "deals" consistently offered by another vendor.

4. Tell the class that there are several sources of information available to business with respect to identifying new vendors. These include:

   - The Yellow Pages
   - Trade manuals, such as the Dun & Bradstreet Manual, Thomas's, etc.
   - Trade association meetings, directories

5. Explain that orders are placed in several different ways, including visits by a sales representative to the retail business, by telephone, and/or by mail.

6. Point out that ordered goods are also received in different ways. These include delivery by truck to the retail store, mail or long distance delivery, and retailer pick up. Examples of each would be:

   - One of the most common modes of merchandise transport is regularly scheduled drop offs by delivery trucks. This is especially true when manufacturer or distributor supplies must be delivered several times a week or month and the manufacturer or distributor is relatively nearby. This would include perishable products such as bread and dairy products to a grocery store, quick turnover products such as cigarettes or candy bars, locally bottled soft drinks, etc.
   - Long distance delivery is often required for large, bulky items with a slow turnover, such as cars, or items which are produced in a single geographic area in the country, such as furniture made in North Carolina, pottery made in Georgia, or medicine produced in New Jersey.
   - Retailer pick up is used whenever the retailer must visit the supplier to select specific items such as produce or cuts of meat.

Many businesses combine all these modes of delivery, depending on the merchandise characteristics.

7. Define and describe the process of taking inventory. Taking inventory is essentially the counting of all unsold products or unused items for service that the business has in stock at a particular time. There are two purposes for taking inventory.

   a. An annual inventory is conducted for accounting purposes to determine whether the business was profitable during a given year. The annual inventory can also record what the total inventory investment was according to each type of product and according to each supplier.

   b. An interim inventory is undertaken at intervals throughout the year to provide the businessperson with information about the volume of sales for each type of product sold by the business. This information is vital for reordering and can provide the entrepreneur with important marketing data about items that are selling well and those that are not.

8. Point out that the small businessperson can take inventory in several ways:

   a. An entrepreneur who wants an approximate count of products may estimate on the basis of looking over the stock on the shelves and counting packed cases in the storeroom. This method may be sufficient for either of the purposes discussed earlier. It is usually not sufficient, however, for a certified accounting of the business' liquid assets.

   b. When an entrepreneur wants an exact count of products, each item on the shelves must be counted and combined with a count of packed cases of products. This procedure would be appropriate for a business having its accounts certified.

   c. A wholesaler's salesperson may offer inventory-taking as a service to small business customers. This service is significant to the very small business which employs just one or two people, since inventory-taking can be a tedious and time-consuming activity. The supplier is also able to make specific recommendations about reordering, based on the inventory results.

   d. "Perpetual inventory" may be taken by adjusting a record of goods purchased when each item is sold. This is done with computerized cash registers and terminals now affordable by many small businesses. "Perpetual inventory" gives the businessperson very precise information at all times but does not replace the annual physical inventory required by tax law.

9. Emphasize that the difficulty and complexity of taking inventory depends on the type of business and the products that are stocked. For example, a variety store or a drug store often has thousands of small items to be separately counted and recorded by product type, manufacturer, and supplier. A hairdresser or a store selling large appliances would have fewer items and perhaps only a few suppliers and manufacturers.

10. Discuss product ordering. The entrepreneur will reorder items at various intervals throughout the year, depending on the sales volume of each type of product and the cycle of deliveries that can be made. There are several primary factors which will determine how much the business will order at a given time:

    a. The need for new goods, e.g., raw materials for manufacturers, products for retail sale, supplies for service business.

    b. The product's sales record as determined by the inventory figures. As noted earlier, the supplier is often an excellent source of information about ordering.

    c. The cash or expected funds that are available for the purchase of new stock.

    d. The amount of storage space that is available.

11. Distribute the Information Sheet, "Purchasing and Shipping," to students. Discuss the diagram and steps 1 through 5, asking for suggestions on simplifying the process or minimizing paperwork. For instance, the invoice might be attached to the packing slip, to reduce mailing costs. You might ask how many times the information on the purchase order is copied. Are all these copies necessary?

12. Stress that some items may be seasonal, or that special supplier or producer discounts for large quantity orders may also be factors to consider in determining what to order and how much. Ask the students for examples of seasonal items, e.g., holiday decorations, swimwear or winter coats in some areas, fruits and vegetables in most climates

13. Summarize inventory-taking and ordering. Taking inventory helps the entrepreneur to determine how much capital is tied up in stock and provides valuable information about future ordering.

14. Explain to students that the Yellow Pages of the telephone directory provides information about sources of inventory as well as other valuable information to the potential or current entrepreneur. The uses proposed in this exercise represent only some of what can be learned from Yellow Pages.

15. Distribute the Worksheet, "Vendors in the Yellow Pages" to students. This exercise can be assigned as homework, and discussed in class the following day.

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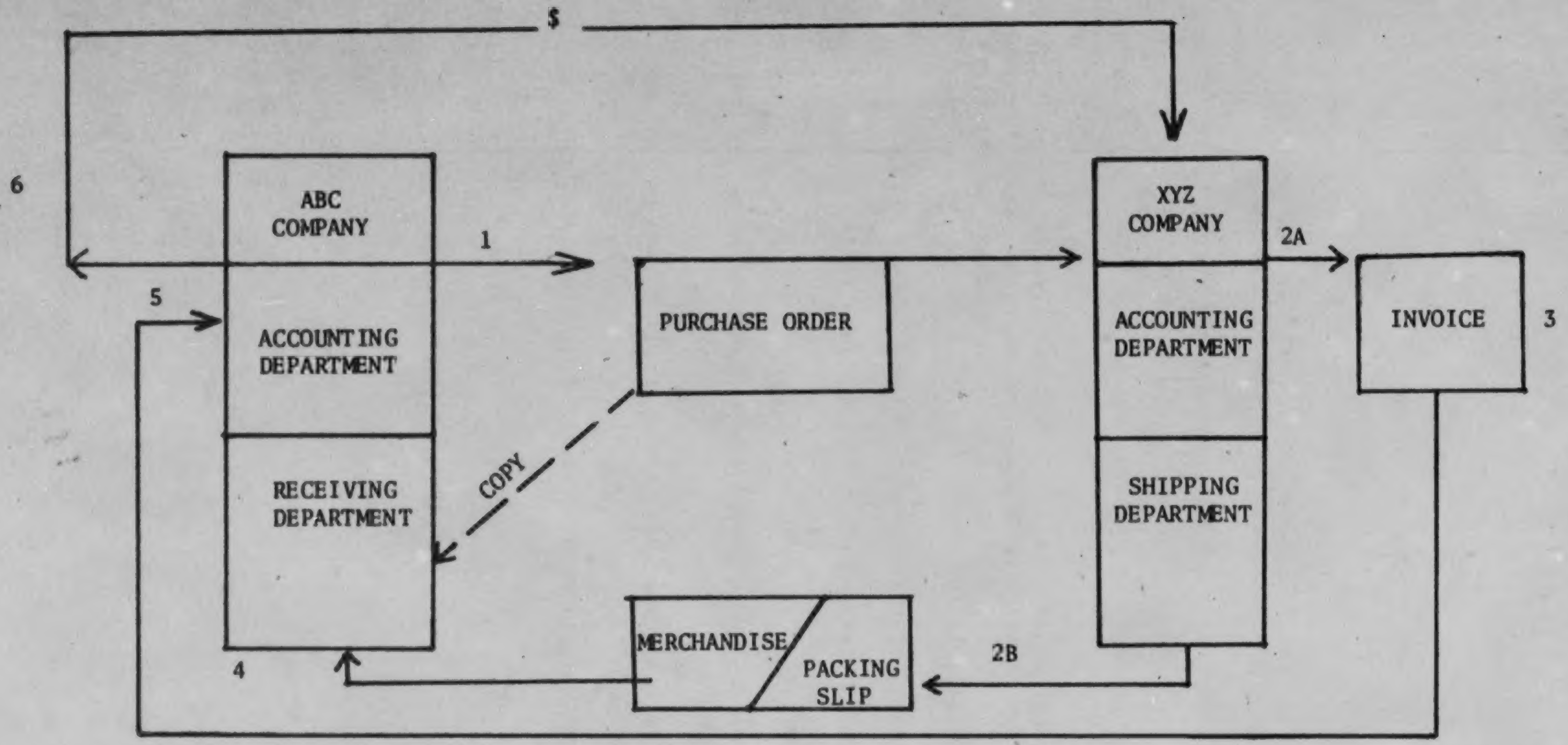
INFORMATION SHEET
PURCHASING AND SHIPPING


$
6
ABC COMPANY
1
PURCHASE ORDER
XYZ COMPANY
2A
INVOICE
3
5
ACCOUNTING DEPARTMENT
ACCOUNTING DEPARTMENT
COPY
RECEIVING DEPARTMENT
SHIPPING DEPARTMENT
MERCHANDISE
PACKING SLIP
2B
4

ABC Company wishes to order MERCHANDISE FROM XYZ COMPANY A LOCAL VENDOR

1. ABC generates a purchase order authorizing XYZ to ship merchandise.
2A. XYZ generates an invoice for goods ordered; 2B. XYZ generates packing slip which accompanies goods to ABC.
3. Invoice is sent to ABC Company.
4. Receiving Department checks merchandise against package slip and copy of purchase order. (Back-ordered merchandise are noted)
5. ABC Accounting Department receives invoice for payment.
6. Payment for merchandise is made to XYZ.

WORKSHEET

VENDORS IN THE YELLOW PAGES

Using a copy of your city's Yellow Pages, identify different vendors needed for any three of the businesses listed below. Indicate:

a. The heading under which the listing appears in the Yellow Pages;

b. The types of products or services which each vendor would appear to provide; and

c. Which vendor(s) would probably be the best choice for each business if it is located in a central downtown area. Use your imagination to identify other needs each business may have, in addition to those listed.

1. A seafood restaurant needs food suppliers and laundry services.
2. A plumbing shop which carries plumbing parts and tools.
3. A neighborhood grocery store.
4. A moving service which needs rental trucks and vans on a long-term lease basis.
5. A daycare center which needs toys, craft supplies, and educational materials.
6. An insurance company which needs office supplies and office furniture.

A.2. Business Records

1. Explain to the class that it is critical to the business to maintain a well organized and up-to-date set of business records to ensure that the entrepreneur knows exactly:

   - What items to reorder.
   - What items are on hand and their worth.
   - How much creditors owe the business.
   - Whether and how much the business is growing or declining.

   Point out that, in the same way different types of businesses have different procedural requirements, different types of businesses also have different record-keeping needs. For example:

   - A cash-and-carry grocery store must maintain documentation of orders, receipts, and sales. A market providing a delivery service must also maintain a written record of the initial order and a customer receipt form. If the market also offers credit, it must maintain customer account records to determine how much the customer owes the store over a period of time.
   - A pharmacy with a broad product line and mix must maintain detailed records of deliveries from and orders to each of the vendors which supply it. A Ford automobile agency, on the other hand, needs to keep order and receipt records for only one merchandise supplier, the Ford Motor Company.
   - The inventory sheet for a hardware store may express the quantity of very small merchandise, such as nails, in terms of pounds rather than number of items. A retail clothing firm, however, needs to know how many items it has on hand, not how much they weigh.

2. List the basic records which are common to many businesses.

   - An order form - generated by the receiver (sometimes by the supplier)
   - A receipt log - generated by the receiver
   - An invoice - generated by the supplier
   - An inventory sheet - generated by the receiver
   - A sales slip - generated by the receiver/seller

   Stress that the formats for each type of record may vary considerably among businesses, even for those of the same type. The basic information to be obtained on any form is that which the businessperson must have to keep track of incoming merchandise and outgoing merchandise, incoming revenue and outgoing revenue.

3. Distribute blank forms of the five types listed above to the class. Explain the purposes of each form while the class examines the format.

   - The order form is generated by the business to various vendors who supply merchandise. The order form tells the vendor how much and what is needed. An order form is used whenever new or fresh merchandise is required.

   - A receiving log is used to document and acknowledge the arrival of merchandise that has been ordered. It is especially useful when a business deals with many different types of products which are supplied by many different vendors or distributers. It provides a basis for keeping track of incoming merchandise and for determining which orders have not yet been filled.

   - The invoice is essentially a bill submitted by the vendor or supplier to the receiver of goods. The invoice may be submitted at the time a single order is sent out by the supplier or mailed at specified intervals, reflecting more than one order.

   - The inventory sheet may be of two types: those which are used for an inventory of merchandise, and those which serve as an ongoing tally of sales and receipts. The former is used for annual or interim inventories which are conducted for accounting purposes (i.e., to find how much of the business' money is tied up in existing inventory, what products are selling well, what products are not selling well). The latter is used as a basis for determining which items to reorder, given existing supplies. This may be done on an inventory form, by an informal tally, or most recently, automatically by an electronic cash register which automatically compiles on ongoing inventory by recording the sale of each specific item.

   - A sales slip is essential to record the sale of merchandise purchased on credit since it provides a business with the amount owed by the customer. It is also a good way to provide customers with a record of their purchase, even if it has been paid for in cash. A second copy of the slip, retained by the business, is one way to keep track of inventory. Some sales slips are designed to obtain customers' names and addresses in addition to recording the sale in order to develop mailing lists, etc. A sales slip may also be used to document the provision of a service, such as window cleaning, in addition to documentation of the sale of a product.

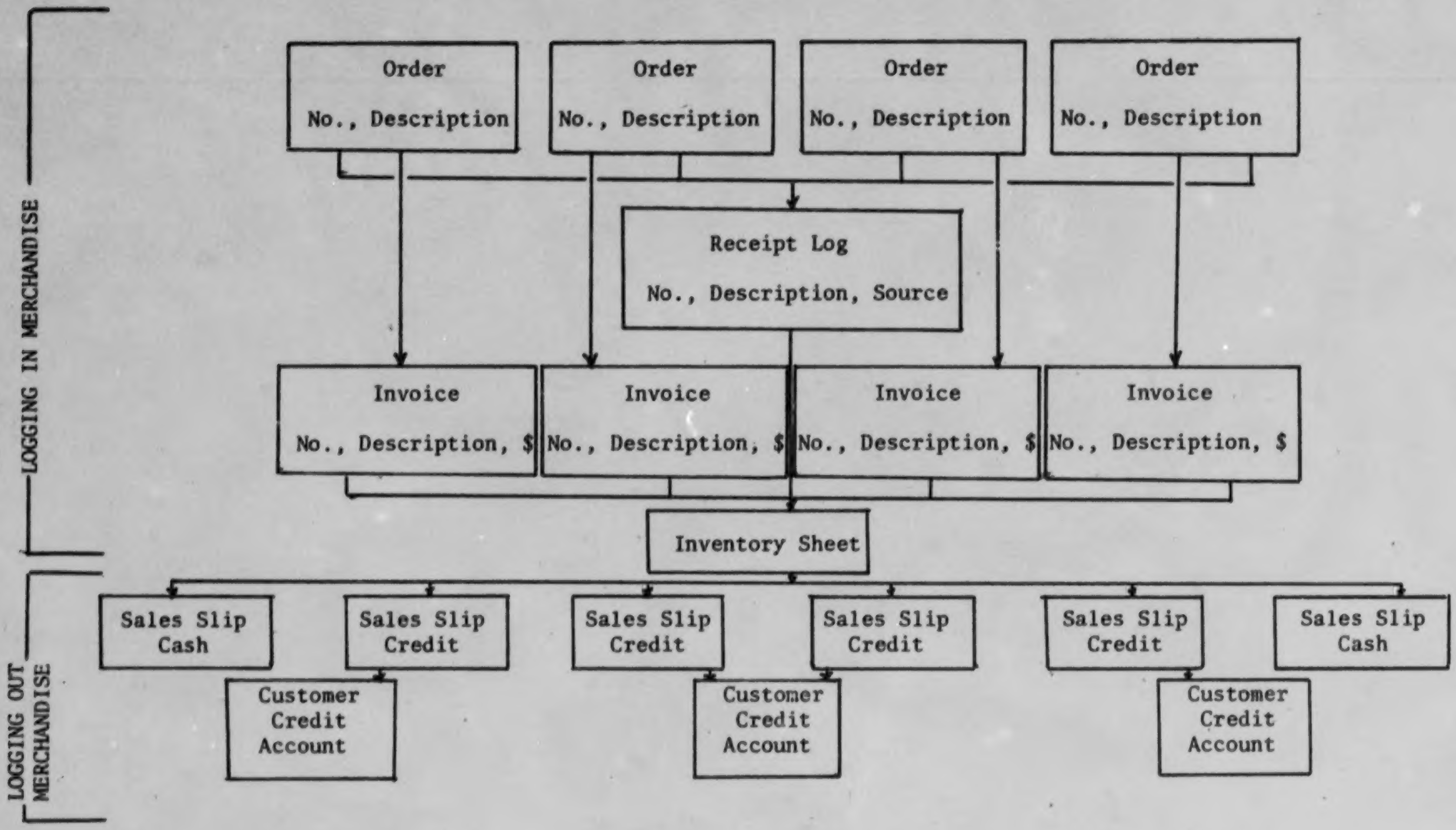
4. The graphic chart "Tracking the Merchandise" is a useful tool for showing the relationships and functions of each type of form. The chart may be drawn on the board or handed out as student materials.

5. Distribute the in-class case study, "Business Records." Read through the problems in class. Using the questions following the study, fill in each of the forms.

INFORMATION SHEET

TRACKING THE MERCHANDISE

V-S-141


LOGGING IN MERCHANDISE
Order
No., Description
Order
No., Description
Order
No., Description
Order
No., Description
Receipt Log
No., Description, Source
Invoice
No., Description, $
Invoice
No., Description, $
Invoice
No., Description, $
Invoice
No., Description, $
Inventory Sheet
LOGGING OUT MERCHANDISE
Sales Slip Cash
Sales Slip Credit
Sales Slip Credit
Sales Slip Credit
Sales Slip Credit
Sales Slip Cash
Customer Credit Account
Customer Credit Account
Customer Credit Account

IN-CLASS CASE STUDY
"BUSINESS RECORDS"
QUESTIONS AND ANSWERS

1. Complete an order form for each supplier of garden merchandise, using a date last week.

To Hothouse Suppliers, Inc.

50 - 5 lb. bags potting soil	@ 2.70 ea	$135.00
75 - clay pots	@ .66 ea	49.50
20 cases plant food	@15.00 ea	300.00
	Total	$484.50

To Burpee Seeds

200 assorted pkgs. vegetable seeds	$25.00

To New World Garden Supplies

25 rakes	@ $5.00	$125.00
10 hoes	@ 7.50	75.00
20 shovels	@ 8.00	160.00
100 trowels	@ 1.00	100.00
	Total	$460.00

2. Complete the daily log for today's and yesterday's delivery.

Yesterday's log:

Hothouse Suppliers, Inc.	clay pots 55 @ $.66 ea	$ 36.30
Hothouse Suppliers, Inc.	20 cases plant food @ $15.00	300.00
Hothouse Suppliers, Inc.	50 5-lb bags potting soil @ $2.70	135.00
Burpee Seeds	200 ass't. vegetable seeds	25.00

Today's log:

New World Garden Supplies		
	25 rakes @ 5.00	125.00
	10 hoes @ 7.50	75.00
	20 shovels @ 8.00	120.00
	100 trowels @ 1.00	100.00
Hothouse Suppliers	20 clay pots @ .66	13.20

3. Prepare an invoice for each supplier to mail to the John L. Thayer Co.

   (Use order form example with total amounts owing)

4. Prepare sales slips for customers

Elmer Bittleson:

20 pkgs. seed @ .35 ea	$ 7.00
4 bags potting soil @ 3.50	14.00
1 rake	8.00
1 hoe	12.00
1 trowel	1.25
Cash Total	$ 42.25

Marion Feldman:

8 clay pots @ 1.00	$ 8.00
2 bottles plant food @ 2.00	4.00
9 bags potting soil @ 3.50	31.50
Charge Total	$ 43.50

Fred Hernandez:

12 bags potting soil @ 3.50	$ 42.00

Charge

Irma Shelton:

1 trowel @ 1.25	$ 1.25
1 hoe @ 12.00	12.00
Cash Total	$ 13.25

5. Complete the inventory sheet:

Potting soil	25 bags
Pots	67
Plant food	198 bottles
Hoes	8
Rakes	24
Trowels	98
Shovels	20
Seeds	180 packets

IN-CLASS CASE STUDY

BUSINESS RECORDS

Mike Thayer inherited the John L. Thayer and Son hardware store from his father five years ago. The business is stable and each year since his father retired Mike has expanded its product line slightly to reach more customers through different kinds of merchandise and more services. Last year, in fact, he broke the tradition of the company and offered customers credit for the first time. Mike has, however, continued to do business with the supply companies which served his father, since the relationship is well established and the vendors provide the hardware store with 30 day credit for merchandise received and inventory services at no additional cost.

Last week, Mike placed a series of orders for garden equipment, which is an entriely new line of business for John L. Thayer and Son. When the sales representative from Hothouse Suppliers, Inc. arrived, Mike handed him an order for 250 lbs. of potting soil sold in individual 5 lb. bags at $2.70 wholesale ($3.50 retail); 75 clay flower pots at $.66 each wholesale ($1.00 retail); and 20 10-bottle cases of plant food costing $15.00 a case (which will sell for $2.00 a bottle). He also mailed an order to Burpee Seeds for 200 assorted packets of vegetable seeds for which he will pay a bulk rate of $25 and which he intends to sell for $.35 a piece. He placed still another order with New World Garden Supplies for 25 rakes, 10 hoes, 20 shovels, and 100 trowels; the rakes will cost him $5.00 each (retail $8.00), the shovels will cost him $8.00 each (retail $12.50), and the hoes will cost him $7.50 each (retail $12.00). For the trowels he will pay $1.00 a piece and he will resell them at $1.25.

Yesterday a store employee, Ed Minch, arrived early to find the delivery man from Hothouse Suppliers ready to unload the order. When Ed logged in the order, however, he compared the delivery with the original order and found that 20 flower pots were missing. The delivery person promised to bring them the next morning. At noon, the Burpee seeds were delivered as ordered and logged in by Mike. The next morning the entire order from New World Garden Supplies was received, as were the missing flower pots from Hothouse Suppliers.

By five o'clock that day four people had made purchases which included the new merchandise. Elmer Bittleson bought 20 packages of vegetable seeds, 4 bags of potting soil, 1 rake, 1 hoe, and 1 trowel. He paid cash for the purchase, so Ed did not keep a copy of the sale for the company. He did, however, enter each sale on the ongoing inventory sheet. Marion Feldman arrived soon afterward and charged 8 clay pots, 2 bottles of plant food, and 9 bags of potting soil. Because she charged the purchase, Ed did keep a copy of her sales slip for the company records. He also entered each item onto the ongoing inventory list. Fred Hernandez bought 12 bags of potting soil and charged it to his account. Irma Shelton purchased a trowel and a hoe for cash.

Tonight Ed and Mike must take a semi-annual inventory of all the goods in the store, including the new garden supplies. To do this, they will use the ongoing inventory tally sheets and take an actual count of all the merchandise in the store and in the storeroom.

IN CLASS EXERCISES AND QUESTIONS

1. Complete an order form for each supplier of garden merchandise, using a date last week.
2. Complete a daily log for deliveries made yesterday and for today's deliveries.
3. Prepare an invoice from each supplier to mail to the John L. Thayer and Son hardware store.
4. Prepare sales slips for each of the four customers who purchased garden supplies.
5. Prepare an inventory sheet for the semi-annual inventory, showing how many of each garden supplies remain in stock at the time of the inventory.

INVOICE FORM

Sold To: ______________________

____

____

Invoice No.

Date:

Distributer Order No.

Customer Order No.

Terms:

Due Date:

Shipped Via:

Quantity	Description	Unit Price		Total	

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PURCHASE ORDER FORM

DATE ______________________

AGENT ______________________ ADDRESS ______________________

Quantity	No.	Description	Price		Net Amount	

DAILY
RECEIVING LOG M T W T F S DATE________________

Supplier	Description	Pieces	Rec'd By	Amount		Credits		Balance	

DAILY
RECEIVING LOG M T W T F S DATE________________

Supplier	Description	Pieces	Rec'd By	Amount		Credits		Balance	

DATE____________________ SEMI-ANNUAL INVENTORY SHEET

Description	Number	Unit	Wholesale Value		Retail Value	

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SALES SLIP FORMS

SALES SLIP

DATE ____________________
CUSTOMER ____________________
STREET ____________________

Quant.	No.	Description	Price	
Cash		Total		
Charge		Sales Tax		
		PAY THIS AMOUNT		

SALES SLIP

DATE ____________________
CUSTOMER ____________________
STREET ____________________

Quant.	No.	Description	Price	
Cash		Total		
Charge		Sales Tax		
		PAY THIS AMOUNT		

SALES SLIP

DATE ____________________
CUSTOMER ____________________
STREET ____________________

Quant.	No.	Description	Price	
Cash		Total		
Charge		Sales Tax		
		PAY THIS AMOUNT		

SALES SLIP

DATE ____________________
CUSTOMER ____________________
STREET ____________________

Quant.	No.	Description	Price	
Cash		Total		
Charge		Sales Tax		
		PAY THIS AMOUNT		

PART B: FINANCIAL SYSTEMS AND RECORDS

B.1. Procedures for Recording Revenues from Sales

1. Explain to the class that this section of the unit will deal with tracking the money that comes into and goes out of the business. In addition to cash taken in or paid out, many businesses operate on credit. This means that the business must also track what they owe to their creditors, such as vendors, banks, etc. and what is owed to them by customers who have "charged" goods and services. The first section of this exercise will deal with accounting procedures for money coming into the business on a day-to-day basis from sales. The second section will discuss accounting procedures for money that is paid out of the business for inventory and miscellaneous items which are needed to run the business. The third section will involve learning how to complete the forms that are commonly used to track revenues and expenditures.

2. Point out to the class that there are two basic types of revenues from sales:

   - Cash: full payment for merchandise or services at the time of purchase, either in currency or checks.

   - Credit: delayed payment for merchandise or services until some future billing date.

   Each of these revenues requires a different type of accounting procedure to keep track of the money received or owed.

3. Cash sales are generally recorded at the time of sale when the purchase is rung up on a cash register. In most cases, the cash register will record each sale and, depending on the capabilities of the register, many also provide total sales rung up for a given business day and cumulative totals for a business week. These totals are then used as a record against which an actual cash count may be compared.

   Some businesses, such as those conducted from home and a mobile unit (cleaning service, knife and skate sharpening service, home repairs, etc.), may find a cash register to be too cumbersome. For these types of businesses, the amount of cash received must be manually documented on a "cash received" ledger.

4. Cash sales are documented by a sales slip which is given to the customer. The sales slip may be similar to that discussed in the last unit or it may be a cash register tape. In either case, the sales slip provides the customer with a proof of payment, in case

merchandise must be returned or services are found wanting. The business, as a rule, does not need such documentation, beyond the original recording of the amount of purchase at the time the sale is made.

5. Credit sales. Cash is considered "money in hand" for the purposes of business records. Credit, on the other hand, is considered "money owing" or "accounts receivable," since the customer has only promised to pay for his or her purchases at a future time. Credit is handled as a "current asset" until the debt or bill is paid; when it is paid, it then is dealt with as "cash." Tell the class to remember this distinction, as it will be important in discussing the summary financial records, such as the income statement, the balance sheet, and the cash flow statement in the final unit of the curriculum.

6. Explain that credit has undergone considerable changes in the past decades.

   - Early credit was originally given only to customers who were well known to a business. The business "trusted" the creditor to repay the debt. Examples of this type of credit still exist at small "mom and pop" grocery stores which draw heavily on the patronage of the same neighborhood customers.

   - The next stage in the evolution of credit was the single store or business account which allowed customers to purchase merchandise or services without payment for a specified period of time, usually 30 days. The debt owed at the end of the thirty-day period was most often due in full at that time. Many stores still have single store charge accounts which require customers to provide specific information about their financial situation. In this case, specific knowledge about the customer's ability to repay, in some measure, replaces personal knowledge or "trust" in the customer.

   - Within the past two decades, area-wide charge cards have gained popularity. This involves a third party--a credit card company--which screens applicants for credit, provides card and undertakes billing services. These companies provide customers with credit at many different types of stores within a given geographical area. The customer applies for credit by providing financial and personal information about his or her ability to repay. Various businesses participate in the credit arrangement voluntarily. Many of the area-wide charge accounts are called "revolving accounts" since the customer need only pay a percentage of the total amount due each month. The credit card company charges interest on the unpaid balance, as they are, in fact, lending the consumer the amount of the unpaid balance.

- A recent and now widespread form of credit is similar to the area-wide charge account except that it may be used nationally and internationally. Some require customers to repay the entire amount charged at the end of each billing period, but most offer revolving accounts.

7. Note that the different forms of credit and repayment may have varying effects on the business' ability to collect for charges.

   a. Informal credit, such as that provided by a neighborhood grocer, may be difficult or impossible to collect. The major recourse open to the business that offers this type of credit is to refuse further credit to individuals who do not repay their debts. In fact, some businesses project in advance the amount of money which they will lose to bad debts in a given year and treat it as a liability.

   b. Formal credit or charge accounts which require the customer to provide specific information are usually backed by a "contract" between the customer and the store or credit card business.

      - Where a single business offers its own charge accounts, collection for unpaid debts is the responsibility of the business. The recourse open to the business for collection are (1) ending further charge privileges, (2) legal recourse through the courts, or (3) sale of the bad debt to a collection agency whose function is to obtain payment for the bad debt. The debt, however, cannot usually be sold for its full value, since the collection agency is assuming the risk of non-payment.

      - Where credit is offered by a third party and is applicable to many different businesses, the customer is billed directly by the credit card firm, not by the stores from which purchases were made. In some cases, the credit card companies will only provide the original seller with the amount of a customer's debt, after the customer has paid the credit card company.

      - Some credit card companies now "guarantee" payment of charges made in stores or businesses. This means that the credit card company will pay the original seller of an item in full, regardless of whether the customer has paid a bill or not. The obvious advantage to this system for the small business is that it reduces the risk of extending credit.

8. Point out that a formal credit plan usually costs the business something to operate, whether the cost is in the expenditure of money to collect amounts receivable or whether the cost is part of the agreement with a third party credit card company. The new business owner will have to consider (1) whether the business can afford to extend credit (i.e., assume the risk, handle the accounting and paperwork for submitting bills, and pay the postage; or afford the services of a third party credit card company, and (2) the extent to which it is necessary to extend credit in the type of business one is in (i.e., how big the business is, what the customers expect or demand, and the nature and frequency of contact with customers).

9. List the essential forms that are used to track money coming into a business:

- Cash Sales - Cashier's Daily Report
  Actual Cash Count

- Credit Sales - Sales Slips or Receipts (covered in Part A)
  Customer Accounts Statement (covered in Part A)
  Accounts Receivable
  Customer Bills

10. Explain the function of each form:

- A cashier's daily report records the cash register reading for the previous business day, the cash register reading for the current day at close of business, and the amount of money taken in during the current business day. For example, if a cash register reading taken at the opening of business reads $400 and the reading taken at the close of business is $600, the difference of $200 represents the amount of money taken in during the course of the current business day.

- An actual cash count, also known as "proving the cash register," is an exact count of the number of bills and coins of each denomination that are in the cash register at the close of business or at some other regular point in the business day. The number of bills and coins is multiplied by the dollar or cents amount of each to determine the total amount of cash in the register. The total amount of cash should exactly equal the difference between the cash register reading for the previous day and the current day at close of business. The exception to this rule will be the documentation of petty cash expenditures, discussed in the following section.

- Sales slips provide a record of the credit extended for each customer who purchased something without paying for it at the time of purchase. One copy of the sales slip is given to the customer as a receipt for his or her records and as a reminder of the amount owed. A second copy is retained by the business for its records. A third copy will also be necessary if credit is obtained through a third party credit card company for the latter's records.

- Customer accounts are individual records for each credit customer, showing the amount owed over the billing period, the amount paid by the customer in response to a bill, and the balance.

- Accounts receivable are an aggregate of customer accounts The total amount owed by each customer, the total amount paid by each customer, and the balances are added together for a complete picture of the amounts initially receivable, the amounts received, and the amounts still receivable. The accounts receivable are organized as an alphabetized listing of customers, amounts owed, amounts paid, and balances.

- Customer bills reflect the information contained on customer account cards and the accounts receivable form. These forms are sent to customers to let them know how much they owe and how much they must pay. Recent federal legislation requires that the bill specify and explain any interest charges on revolving accounts or incomplete payment of the total balance.

- Vendor invoices are essentially the vendor's bill to the retailer. The invoice will tell the retailer the total wholesale amount owed for merchandise received. An invoice may be paid upon delivery of merchandise or at a later time--as for credit--depending on the policy of the supplier and receiver.

11. Tell the class that they will be filling out these forms at the end of the unit.

B.2. Recording Expenditures for the Business

1. Explain to the class that expenditures for the business means tracking all the money that is spent in the course of the business. In most cases, expenditures will consist of checks written to cover bills outstanding or actual cash paid out for smaller items which the business needs.

2. A different type of "expenditure" is not always a direct expenditure but a crediting of a customer's account for merchandise which has been returned for cash or credit. The business' policy determines the ground rules for return of merchandise or refund of customer payment. This transaction is called a "sales return." Another type of transaction involves documenting specific discounts or allowances that are made for certain customers, since this represents the difference between the amount that would usually be taken in for sales and the amount that is actually taken in. Examples of discounts or allowances include an offer for trade-ins, reduced prices for clergy or the elderly, and discounted merchandise that is either damaged or has been used for display.

3. Point out that business expenditures that are large and/or regularly payable are usually paid by check since this is a practical method of payment. Smaller amounts spent at irregular intervals may be taken from a petty cash fund which has been reserved for this purpose, or directly from the cash register. In either case, it is important to document how much was spent and the purpose of the expenditure, in order to keep track of where the money has gone.

4. Ask the class for examples of "petty cash" expenditures and check payment expenditures. These would include:

Petty Cash Expenditures	Check Payment Expenditures
Consumable supplies such as paper, pens, etc.	Salary or wage checks
Postage	Payment to vendors for inventory received
Gasoline and small truck repairs	State and federal taxes
Cleaning supplies	Mortgage, long term debt, and rent payments
	Electricity bills

5. List the essential forms for recording and keeping track of business expenditures:

   - petty cash vouchers
   - a checkbook and check stubs
   - vendors'invoices
   - accounts payable

6. Explain the purpose of each type of form:

   - Petty cash vouchers are made out to record the expenditure of cash on hand.

   - The checkbook is to make certain types of payments, usually those which are fairly large and/or predictable.

   - The checkstub is the record of money spent by check; it is functionally like the petty cash voucher except that it keeps track of money spent by check, rather than cash. A primary purpose of the checkstub is also to keep a record of business deposits, withdrawals, and the balance of the company's account.

- Vendors' invoice statements are analogous to bills for merchandise received. This may involve merchandise that is eventually to be sold retail or it may involve merchandise that will be consumed or used in the course of business, such as a case of paper, books, etc.

- Accounts payable statements are a consolidated statement of the money owed by the business. For long term debts or partial payments, the accounts payable statement also keeps track of balances due on existing debts.

B.3. Completing Forms for Revenues and Expenditures

1. Distribute the forms package to the class. The package should contain:

    - cashier's daily report
    - actual sales count report
    - sales slips
    - credit/refund slips
    - customer account statements
    - accounts receivable statement
    - customer bills
    - petty cash vouchers
    - checks and check stubs
    - accounts payable statement
    - monthly income statement (sample)
    - in-class case study

2. Go through each form with the class. Divide the forms into those necessary for recording revenues, those for recording expenditures and those used to record both revenues and expenditures.

    - Revenue records include actual cash count, sales slips, accounts receivable, and customer bills.

    - Expenditure records include petty cash vouchers, checks and check stubs and accounts payable.

    - Revenue and expenditure records include cashier's daily report, credit/refund slips and monthly income statement.

3. Explain to the class that the sales slip is identical to the one presented in the previous section of this unit. Note that sales slips are necessary for financial record keeping as well as tracking merchandise and documenting sales.

4. Read the in-class case study, "Rrecording Revenues and Expenditures," aloud to the class. Identify each form and list it on the board. Using the case study for information, work through each set of forms in class. Complete the forms in the following order: sales slips, credit slips, petty cash vouchers, actual cash count, cashier's daily report, customer account statements, accounts receivable statement, customer billing forms, accounts payable, and checks and check stubs. Use the questions at the end as a guide for completing each of the forms. (An income statement will not be prepared in this unit. It will be covered in "Financing Your Business.")

5. Actual Cash Count:

7 x 20 = $140.00
5 x 10 = 50.00
5 x 5 = 25.00
13 x 1 = 13.00
10 x .25 = 2.50
20 x .10 = 2.00
30 x .05 = 1.50
100 x .01 = 1.00
1 x check = 29.00
$264.00

Cashier's Report

1. 100.00
2. 100.00
3. 149.00
4. 149.00
5. 0
6. 264.00
7. 264.00
8. 0

6. Customer Accounts

a. Jack Groggin

Charge	4 FR 78x14 tires @ $50.00	$200.00
	Tax	10.00
		$210.00

b. Mike Nelson

Charge	4 ER 78x14 tires @ $32.25	$129.00
	Tax	6.45
		$135.45
Payment		29.00
		$106.45
Credit		33.86
Adjusted Balance		$ 72.59
Charge 1 FR 78x14 tire @ $38.00		38.00
	Tax	1.90
New Balance		$112.49

c. Morton Quip

Charge	4 DR 68x13 tires @ $60.00	$240.00
	Tax	12.00
		$252.00
Payment		120.00
Balance		$132.00

IN-CLASS CASE STUDY
"RECORDING REVENUES AND EXPENDITURES"
ANSWERS

1. Sales slips for Merle's Tires will include:

a. Jackie Groggin

4 FR 78/14 tires @ $50.00 ea.		$200.00
	Tax	10.00
Charge		$210.00

b. Mike Nelson

4 ER 78/14 tires @ $32.25 ea.		$129.00
	Tax	6.45
		$135.45
	- Down Payment	29.00
Charge	Owing	$106.45

c. Morton Quip

4 DR 68/13 tires @ $60.00 ea.		$240.00
	Tax	12.00
		$252.00
	- Down Payment	120.00
Charge	Owing	$132.00

d. Ann Mellon

2 BR 78/13 tires @ $48.00		$ 96.00
	Tax	4.80
Charge		$100.80

2. Petty Cash Vouchers

1.	$12.00	Stamps
2.	$10.00	Office Supplies
3.	$ 5.00	Cleaning Supplies

3. Credit slip for Mike Nelson:

1	ER 78/14 tire @	$32.25
	Tax	1.61
		$33.86

Defective rim Credit Account

4. Mike Nelson

1	FR 78/14 tire @	$38.00
		1.90
Charge		$39.90

d. Ann Mellon

Charge	2 BR 78x13 tires @ $48.00		$96.00
		Tax	4.80
			$100.80

7. Accounts Receivable:

	Total Owing	Total Owing This Month	Balance Owed
Groggin, J.	210.00	70.00	140.00
Mellon, A.	100.80	33.60	67.20
Nelson, M.	112.49	37.50	74.99
Quip, M.	132.00	44.00	88.00
Total Owing	555.29		
Total Owing This Month		185.10	
Balance Owed			370.19

8. Use information from customer accounts.

9. Accounts Payable:

Firestone Tires	$3,622.00
General Tires	1,547.00
Goodyear Tires	1,013.00
Total	$6,182.00

10. (1)
TO: Firestone

Bal. Bro. For'd	$6,000.00
Amt. Deposited	202.06
Total	$6,202.06
Amt. this check	1,811.00
	$4,391.06

TO: Firestone Tires $1,811.00

One Thousand eight hundred eleven and no.

(2)
TO: General Tire

Bal. Bro. For'd.	$4,391.06
Amt. Deposited	0
Total	$4,391.06
Amt. this check	1,547.00
	$2,844.06

TO: General Tire $1,547.00

One thousand five hundred forty-seven and no.

(3)

TO: Goodyear

Bal. Bro. For'd	$2,844.06
Amt. Deposited	0
Total	$2,844.06
Amt. this check	1,831.06
	$1,831.06

TO: Goodyear $1,013.00

One thousand thirteen and no.

5. Distribute a second set of forms and the homework case study, and ask students to complete all forms for this case study after class.

HOMEWORK CASE STUDY
ANSWERS

DAILY FORMS: MONDAY

Sales Slips:

1.	1 ruby ring	$2,000.00
	2 stick pins @ $250 ea.	500.00
	Sales Tax	125.00
	Total Sale	$2,625.00
	(Charge)	
2.	1 belt buckle	$ 25.00
	Sales Tax	1.25
	Total Sale	$ 26.25
	(Cash)	
3.	1 cluster ring	$1,600.00
	Sales Tax	80.00
	Less down payment	600.00
	Total Owing	$1,080.00
	(Charge)	

Petty Cash Voucher

$11.00 for cleaning supplies

Actual Cash Count:

11	$20	$220.00
12	10	120.00
26	5	130.00
34	1	34.00
51	.25	12.75
65	.10	6.50
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,126.25

Cashier's Daily Report

1. $500
2. 626
3. 1,126
4. 0
5. 1,126
6. 1,126
7. even

DAILY FORMS: TUESDAY

Sales Slips:

4.	1 pr. earrings	$1,250.00
	1 jade brooch	1,300.00
	2 buckles @ $100 ea.	200.00
	Sales Tax	137.50
	Total Sale	$2,887.50
	(Charge)	
5.	1 charm bracelet	$1,000.00
	1 stick pin	75.00
	Sales Tax	53.75
	Total Sale	$1,128.75
	(Charge)	

Actual Cash Count

17	$20	$340.00
15	10	150.00
24	5	120.00
42	1	42.00
48	.25	12.00
73	.10	7.30
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,247.30

DAILY FORMS: TUESDAY (CONTINUED)

6.	1 ring	$56.00
	Sales Tax	2.80
	Total Sale	$58.80
	(Cash)	
7.	1 watch	$85.00
	Sales Tax	4.25
	Total Sale	$89.25
	(Cash)	

Cashier's Daily Report

1. 1,126.25
2. 148.05
3. 1,274.30
4. 0
5. 1,274.30
6. 1,274.30
7. even

DAILY FORMS: WEDNESDAY

Sales Slips:

8.	1 silver buckle	$ 65.00
	1 silver buckle	45.00
	Sales Tax	5.50
	Total Sale	$115.50
	(Charge)	
9.	2 gold bracelets	$200.00
	Sales Tax	10.00
	Total Sale	$210.00
	(Cash)	

Petty Cash Voucher:

$50.00 paid to Zeus Printers for bags.

Actual Cash Count

27	$20	$540.00
15	10	150.00
26	5	130.00
42	1	42.00
48	.25	12.00
73	.10	7.30
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,484.30

Cashier's Daily Report

1. 1,274.30
2. 210.00
3. 1,484.30
4. 0
5. 1,484.30
6. 1,484.30
7. even

DAILY FORMS: THURSDAY

Sales Slips:

10.	2 pins	$210.00
	Sales Tax	10.50
	Total Sale	$105.00
	(Cash)	
11.	1 jade brooch	$2,500.00
	Sales Tax	125.00
	Total Sale	$2,625.00
	(Charge)	
12.	1 ring	$100.00
	Sales Tax	5.00
	Total Sale	$105.00
	(Cash)	

Actual Cash Count

32	$20	$640.00
15	10	150.00
27	5	135.00
42	1	42.00
48	.25	12.00
73	.10	7.30
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,589.30

Cashier's Daily Report

1. $1,484.30
2. 105
3. 1,589.30
4. 0
5. 1,589.30
6. 1,589.30
7. even

DAILY FORMS: FRIDAY

Credit Account Form

1 buckle	$65.00
Sales Tax	3.25
Total Amount Returned	$68.25

Sales Slips:

13.	1 buckle	$40.00
	Sales Tax	2.00
	Total Sale	$42.00
	(Charge)	
14.	Misc. silver charms	$35.00
	Sales Tax	1.75
	Total Sale	$36.75
	(Charge)	

Actual Cash Count

32	$20	$640.00
18	10	180.00
28	5	140.00
43	1	43.00
51	.25	12.75
73	.10	7.30
40	.05	2.00
100	.01	1.00
1	Check	600.00

Total Cash in Drawer: $1,626.05

Cashier's Daily Report

1. 1,589.30
2. 36.75
3. 1,626.05
4. 0
5. 1,626.05
6. 1,626.05
7. even

WEEKLY FORMS

Customer Accounts:

Little, A.M.	Ring	2,000.00	100.00			
	Stickpins	500.00	25.00			2,625.00
Nicholson, F.	Ring	1,600.00	80.00	600.		1,080.00
Reubens, E.	Ring	1,250.00	62.50			
	Brooch	1,300.00	65.00			
	Buckles	100.00	5.00			2,682.00
Jenkins, E.	Bracelet	1,000.00	50.00			
	Stick pin	75.00	3.75			1,128.75
	Buckles	110.00	5.50			1,244.25
	Buckle				-68.25	1,176.00
	Buckle	40.00	2.00			1,218.00
Sanders, M.	Pins	200.00	10.00			210.00
Kaminsky, M.	Brooch	2,500.00	125.00			2,625.00

Accounts Receivable	Total Charges This Month	Minimum Payment	Balance Owing
Little, A.M.	2,625.00	262.00	2,362.00
Nicholson, F.	1,080.00	108.00	972.00
Reubens, E.	2,682.00	268.20	2,413.80
Jenkins, E.	1,218.00	121.80	1,096.20
Sanders, M.	210.00	21.00	189.00
Kaminsky, M.	2,625.00	262.50	2,362.50

Customer Billing Forms:

Little, A.M	2,625.00	00.00	2,625.00
Nicholson, F.	1,080.00	00.00	1,080.00
Reubens, E.	2,682.00	00.00	2,682.00
Jenkins, E.	1,218.00	00.00	1,218.00
Sanders, M.	210.00	00.00	210.00
Kaminsky, M.	2,625.00	00.00	2,625.00

Accounts Payable		Charges	Payment	Balance
Elm Tree Estate	date	2,850.00	2,850.00	00.00
Harbinger Estates	date	2,300.00	2,300.00	00.00
Lionel Auctions	date	5,850.00	2,925.00	2,925.000

Checks and Check Stubs:

1.	No. 1	$2,850.00
	Date	
	Elm Tree Estates	
	Merchandise	
	Bal. Bro. For'd	10,000.00
	Deposit	4,104.05
	Total	14,104.05
	Amt. this Check	2,850.00
	Balance	11,254.05

2.	No. 2	$2,300.00
	Date	
	Harbinger Estates	
	Merchandise	
	Bal. Bro. For'd	11,254.05
	Deposit	0
	Total	11,254.05
	Amt. this Check	2,300.00
	Balance	8,954.05

3.	No. 3	$2,925.00
	Date	
	Lionel Auctions	
	Merchandise	
	Bal. Bro. For'd	8,954.05
	Deposit	0
	Total	8,954.05
	Amt. this Check	2,925.00
	Balance	6,029.05

IN-CLASS CASE STUDY
RECORDING REVENUES AND EXPENDITURES

Last month Merle's Tires, Inc. opened its doors on Main Street. Merle is carrying several different brands of tires and has stocked nearly every tire size imaginable to serve her customers' needs. She decided to allow customers to purchase merchandise on an interest free 90-day credit plan which requires repayment in three equal payments over 90 days following the sale. Merle herself bought the initial merchandise on credit, since she wants to maintain her $6,000 business bank account in case of emergency in the first weeks of business.

Merle has set aside a petty cash fund of $50 for small, immediate expenditures needed to operate the business every day. She has also set up the cash register with $100.00 worth of cash in the following denominations:

2	$20 bills
4	$10 bills
2	$ 5 bills
3	$ 1 bills
10	$.25 coins
20	$.10 coins
30	$.05 coins
100	$.01 coins

At the end of the first day of business, Merle had sold three sets of tires (four tires for each sale) and one set of snow tires (two rear tires only). Each sale was subject to a 5% state sales tax. The first sale was made to Jackie Groggin for her delivery truck. Jackie chose to charge her purchase--four Goodyear FR 78 X 14 tires at $50 each--and repay on the 90-day credit plan. Mike Nelson bought four General ER 78 X 14 tires for a total of $129 for all four. He wrote a check for $29 as a down payment and will repay the balance in two equal installments within the next 90 days. Morton Quip bought four steel belted radials and paid cash for half his purchase of $240 (five $20's, one $10, and ten $1's). He will pay the full balance next month. Ann Mellon bought two General snow tires for $48 each. She charged her entire purchase and will repay in three equal installments over the next 90 days. During the course of the day, Merle went to the post office to buy $12.00 worth of stamps for postage and to the local variety store to purchase $10.00 worth of office supplies and $5.00 worth of cleaning supplies. All these expenditures were made from petty cash.

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On the following Thursday, Mike Nelson returned with one tire which was defective and already losing air. Merle credited his account for the price of the tire; since she did not have an exact replacement, she sold him a Goodyear FR 78 X 14 tire for $38.00. Mike charged the new tire.

Last week Merle prepared her first set of customer account cards, using sales and credit slips as an information source. She then completed an accounts receivable statement which consolidated her customers' debts into a single alphabetized list and provided totals for payments received and amounts owing. Based on this, she prepared customer billing forms for mailing. She also received manufacturers' invoices for the merchandise which she had obtained on credit at the time her store opened. These included:

No.	Description of Item	Price	Total
From Firestone Tires:			
26	Radial Ply HR 70 X 15	$47.00	$1,222.00
12	Steel belted DR 68 X 13	35.00	420.00
20	Radial Ply ER 60 X 14	39.00	780.00
		TOTAL OWING	$3,622.00
From General Tire:			
26	BR 78 X 13	28.00	728.00
18	ER 78 X 14	23.00	414.00
15	GR 78 X 14	27.00	405.00
		TOTAL OWING	$1,547.00
From Goodyear Tire:			
14	HR 72 X 15	29.00	413.00
10	FR 78 X 14	32.00	320.00
7	FR 78 X 15	40.00	280.00
		TOTAL OWING	$1,013.00

Today Merle received several payments as a result of last week's mailing of customers' bills. Mike Nelson sent a check for $50.00, Jackie Groggin for $70.00, and Ann Mellon for $33.60. She decided to deposit these payments, in addition to the cash taken in during the first day of business, before paying her creditors. These deposits were added to the bank balance of $6,000. She then wrote checks to her suppliers. Goodyear and General Tire were paid in full. The Firestone bill was divided into two equal payments, one of which was paid in full today and another which will be paid in two weeks.

IN-CLASS EXERCISE
COMPLETING FORMS

1. Complete the four sales slips which Merle made out on her first day of business. The total should reflect the amount owing. The bill should also document the amount paid down.

2. Complete the three petty cash slips which Merle will need to document her expenditures for office supplies and postage. How much is remaining in petty cash after these expenditures? ($23)

3. Complete the credit slip for Mike Nelson. Remember that the credit slip will be used in addition to the sales slips to determine Mike's balance for billing.

4. Complete a sales slip for Mike's purchase on Thursday.

5. Complete the actual cash count form and the cashier's daily report form, using the information contained in the case problem. Remember the actual count of money in the register at the end of the day (item 7 on the cashier's daily report) should equal the register reading at the start of current day plus sales for the day.

6. Using the sales and credit slips, prepare the customers' account cards for each of the four charge customers in the case study.

7. Using the customer account cards, prepare an accounts receivable form for the business.

8. Using the customer account card and the accounts receivable, prepare the customer billing form for the four charge customers in the case study.

9. Complete an accounts payable form, using the information provided in the manufacturer's invoices in the case study.

10. Write checks and adjust bank balance on checkstubs for each of the manufacturers to whom Merle owes money.

DAILY FORMS: MONDAY

1.

SALES SLIP

Date ______________________

Name ______________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

2.

SALES SLIP

Date ______________________

Name ______________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

3.

SALES SLIP

Date ______________________

Name ______________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

PETTY CASH VOUCHER

Date ______________________

Amount $ ______________________

Purpose of Expenditure ______

____

____

CASHIER'S DAILY REPORT

Cashier ______________________

Date ______________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

CASH COUNT

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

Petty Cash Vouchers

Date ____________________
Amount $ ____________________
Purpose of Expenditure ______
____
____

Date ____________________
Amount $ ____________________
Purpose of Expenditure ______
____
____

Date ____________________
Amount $ ____________________
Purpose of Expenditure ______
____
____

Credit Account Form

Quantity	Items	Price
	Subtotal	
	Tax	
Total Amount of Return		

Reason for Return ____________________
____
Date ____________________
Customer Signature ____________________
Cash Refund ________ Credit Acc't. ________

Sales Slip

Date ____________________
Name ____________________

Quant.	Item	Price	
Cash	Subtotal		
Charge	Sales Tax		
Down Payment	TOTAL		

Customer Accounts

WEEKLY FORMS

Name ____________________
Address ____________________
Account No. ____________________

Date	Item	Price	Tax	Payment	Credit	Balance

Name____
Address______________________________________
Account No.______________

Date	Item	Price	Tax	Payment	Credit	Balance

Name____
Address______________________________________
Account No.______________

Date	Item	Price	Tax	Payment	Credit	Balance

Name____
Address______________________________________
Account No.______________

Date	Item	Price	Tax	Payment	Credit	Balance

Weekly Forms, con't.

Accounts Receivable:

For the Month of ______________________________

Customer Name	Acc't No.	Total Charges for Month	Amount of Payment	Balance Owed

Customer Billing Form:

Customer Name ____

Account No. Payment Due Date ________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name ____

Account No. Payment Due Date ________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Billing Forms, con't.

Customer Name ____________________

Account No. Payment Due Date ____________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name ____________________

Account No. Payment Due Date ____________

Date	Amount Charged	Payment Received	Balance Owing

Accounts Payable:

For the month of ____________________

Vendor Name	Date	Charge	Date	Payment	Balance

Checks and Check Stubs:

No. ________ $ ________
Date ____________
To ____________
For ____________
Bal.Bro.For'd. ________
Deposit ____________
Total ____________
Amt.This Ck. ________
Balance ____________

No. ______

Date ____________

Pay to the Order of ____________________

____

First National Bank
09-341-6785-01

____

Checks and Check Stubs, con't.

No.________ $__________
Date________________
To__________________
For_________________
Bal.Bro.For'd.________
Deposit______________
Total________________
Amt.This Ck.__________
Balance______________

No.________
Date________________
Pay to the Order of______________________________
____ ______________________________________
First National Bank
09-341-6785-01 ______________________________

No.________ $__________
Date________________
To__________________
For_________________
Bal.Bro.For'd.________
Deposit______________
Total________________
Amt.This Ck.__________
Balance______________

No.________
Date________________
Pay to the Order of______________________________
____
First National Bank
09-341-6785-01 ______________________________

HOMEWORK CASE STUDY
RECORDING REVENUES AND EXPENDITURES

Jo and Alan Stern operate a small antique jewelry store which has attracted the attention of collectors throughout the state. They usually obtain their merchandise through auctions and private estate sales which occur at irregular intervals throughout the year. For example, the Sterns recently acquired $11,000 worth of new merchandise within only a two week period, since a great deal of top quality jewelry happened to become available at that time. Since the Sterns must respond quickly to opportunities to buy, they often purchase new inventory on credit and repay their vendors, either in full at the end of the month or in two equal payments over the next two months. They also extend credit to many of their customers. Each customer must pay a minimum of 10% of the total bill each month.

The Sterns have developed an extensive knowledge about the value of the merchandise they buy and sell, particularly with respect to the amount they are willing to pay to acquire it and the amount they are able to sell it for. Many of their customers, however, are also extremely knowledgeable about the value of the antique jewelry items so the Sterns often allow a certain amount of bargaining to settle differences of opinion between buyer and seller. To the agreed-upon price, they must, of course, add a 5% sales tax.

The Sterns' shop is small but adequate for the display of the valuable items which they carry. The only equipment in the shop is a cash register which provides them with daily totals at the beginning and end of each day. Jo and Alan begin the week with $500 cash in the register to provide change for cash sales. On Friday each week they deposit anything over the $500 in their business bank account. When they receive vendors' invoices, they make prompt payment by check from the same account. On Monday of last week, money was in the cash register in the following denominations:

	Bills		Coins
11	$20's	50	$.25's
10	10's	65	.10's
25	5's	40	.05's
33	1's	100	.01's

They also keep a petty cash fund of $100 for immediate expenditures. This money is kept separately, however, in a locked drawer.

The following is a record of the business transactions which took place two weeks ago, since the acquisition of the new inventory. It also describes the recordkeeping procedures the Sterns followed to keep track of the money they took in and they paid out.

Monday

Jo began the week with the sale of a ruby ring for $2,000 and two pearl stick pins for $250 each to Arthur M. Little. Since Arthur has done business with the Sterns for many years, Jo was happy to let him charge his purchases, knowing that he will promptly pay at least the minimum portion of his bill (10 percent of the total) at the end of the month's billing period. She wrote up the sales slip in duplicate and gave one copy to Arthur with his merchandise.

She later sold a small silver buckle to a woman who had not been in the store before. The sale was made for cash in the amount of $25. The woman handed her two $10's, one $5, and $1 and one $.25. Jo made out a sales slip, but since the sale was for cash, she did not keep a copy for the store.

In the afternoon, Jo sold a diamond cluster ring to Fred and Norma Nicholson for $1600. Although the Nicholsons have not charged anything before, Jo accepted a check for $600 and told the young couple that the balance could be paid in ten equal installments over the next ten months. When she made out the sales slip, she put down the total amount of the ring, plus tax; she then subtracted the amount of the down payment from the total. She did, of course, make a duplicate copy of the sales slip for the store, since the purchase was charged.

At the end of the day, Jo took $11 from petty cash and spent it all on cleaning supplies for the store. She recorded the withdrawal on a petty cash voucher.

Tuesday

Alan made an unexpected sale at the beginning of the day to Emily Reubens, a nationally known collector of antique jewelry. She bought a pair of diamond and emerald earrings for $1,250, a jade brooch for $1,300 and two silver buckles for $100 each. Because she is so well know to the antique jewelry trade, Alan immediately extended her credit and told her that she would be billed at the end of the month.

He then sold an intricate charm bracelet and a stick pin to Ed Jenkins, a regular charge account customer for many years, for $1,000 and $75 respectively. Ed asked Alan to keep an eye out for a gold watch chain and to let him know when one was available.

Several people came into the store together to browse. One chose a ring for $56 and paid for the purchase with one $20, three $10's, eight $1's and eight $.10's. Another selected a watch for $85 and handed Alan five $20's. Alan gave him two $5's and three $.25's in change.

Wednesday

Edward Jenkins returned to the store to tell the Sterns how pleased he was with his initial purchase. He then purchased two silver belt buckles, for which Alan charged him $65 and $45 respectively. The amount of the new purchases was added to Ed's charge account bill.

Jo then sold several gold bracelets for $210, *including* tax. The customer gave her exact change, ten $20's and two $5's.

Late in the day, Zeus Printers, Inc. delivered an order of bags with the store logo printed on the front. Alan paid the driver $50 from the petty cash fund.

Thursday

In the morning, Jo sold two cloisonne pins to Mark Sanders for a total of $210 plus tax. The purchase was charged to Mark's account and Jo kept a copy of the sales slip for the company.

Alan sold an exquisite jade broach to Marian Kaminsky for $2,500, adding that amount to her charge account. He kept a copy of the the sales slip for the store records.

At the end of the day, two elderly women came into the store to purchase an enamelled ring for $100 (plus tax) as a gift for a great-niece. They paid Alan five $20 bills and one $5 bill for their purchase.

Friday

Edward Jenkins arrived to return the $65 belt buckle because it was too large to serve the purpose for which it was intended. He selected another belt buckle to replace it for $40. Alan credited Ed's charge account for the $65 return and wrote up the final purchase as a separate charge sale.

At the end of the day, two new customers purchased several silver charms that the Sterns had had on hand for some time. The total amount of the purchase, including tax, was paid with three $10's, one $5, one $1 and three $.25's.

Late on Friday afternoon, Jo and Alan went over their accounts for the week. They first updated the customer account cards, using the information from the sales and return slips which they had completed for each credit transaction during the course of the week. They then prepared an accounts receivable statement, which consolidated the amounts owed by each customer. Finally, they prepared the customer billing forms and mailed them at the close of the business day.

The Following Friday

Once again, the Sterns sat down with their weekly accounts. The mail during the week had contained a number of invoices for recently purchased merchandise, including:

From Harbinger Estates, Inc.

2 diamond cluster rings	$1,000.00
1 pr. diamond/emerald earrings	950.00
6 stick pins	350.00
Total Amount Owed	$2,300.00

From Lionel Auctions, Ltd.

6 cloisonne pins	$1,200.00
2 ruby rings	1,950.00
2 jade brooches	1,700.00
2 gold watches	1,000.00
Total Amount Owed	$5,850.00

From the Elm Tree Estate Sale

10 sterling silver buckles	$ 500.00
5 stick pins	250.00
1 jade brooch	800.00
2 ruby rings	1,300.00
Total Amount Owed	$2,850.00

The mail also contained several payments from credit customers, including:

F. and N. Nicholson	$108.00
E. Jenkins	400.00
A. M. Little	750.00
M. Sanders	220.50
M. Kaminsky	1,500.00

Since the business' bank balance is a bit low--$10,000--the Sterns deposited the customers' payments and all the cash received during week before writing checks to their vendors. They paid Harbinger Estates and Elm Tree Estates in full; Lionel Auction was paid half the total amount owed.

Using the information given in this case study, complete all the appropriate business forms.

DAILY FORMS: MONDAY

1.

SALES SLIP

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

2.

SALES SLIP

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

3.

SALES SLIP

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

PETTY CASH VOUCHER

Date ____________________

Amount $ ____________________

Purpose of Expenditure ________

____

____

CASHIER'S DAILY REPORT

Cashier ____________________

Date ____________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

CASH COUNT

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

DAILY FORMS: TUESDAY

4. SALES SLIP

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

5. SALES SLIP

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

6. SALES SLIP

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

7. SALES SLIP

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

CASHIER'S DAILY REPORT

Cashier______________________________

Date______________________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

CASH COUNT

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

DAILY FORMS: WEDNESDAY

8.

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

9.

Date ____________________

Name ____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

PETTY CASH VOUCHER

Date ____________________

Amount $ ____________________

Purpose of Expenditure ______

____

____

Cashier's Daily Report

Cashier ____________________

Date ____________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

Cash Count

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

DAILY FORMS: THURSDAY

10. SALES SLIP

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

11. SALES SLIP

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

12.

Date______________________________

Name______________________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

CASH COUNT

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
	Total Cash in Drawer		

CASHIER'S DAILY REPORT

Cashier______________________________

Date______________________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

Daily Forms: Friday

13.

Sales Slip

Date____________________

Name____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

14

Sales Slip

Date____________________

Name____________________

Quant.	Item	Price	
Cash ☐	Subtotal		
Charge ☐	Sales Tax		
Down Payment ☐	TOTAL		

Credit Account Form

Quantity	Items	Price
	Subtotal	
	Tax	
	Total Amount of Return	

Reason for Return____________________

Date____________________

Customer Signature____________________

Cash Refund________ Credit Acc't.________

Cashier's Daily Report

Cashier____________________

Date____________________

1. Register reading, start of current day	
2. Cash sales for the day	
3. Total cash to be accounted for	
4. Less refunds	
5. Total cash that should be in the register, end of day	
6. Actual count of money in register end of day	
7. Cash short or over	

Cash Count

Quantity	Value	Amount	
	$20		
	$10		
	$ 5		
	$ 1		
	.25		
	.10		
	.05		
	.01		
	Checks		
Total Cash in Drawer			

WEEKLY FORMS

Customer Accounts:

Name ____________________

Address ____________________

Account No. ____________

Date	Item	Price	Tax	Payment	Credit	Balance

Name ____________________

Address ____________________

Account No. ____________

Date	Item	Price	Tax	Payment	Credit	Balance

Name ____________________

Address ____________________

Account No. ____________

Date	Item	Price	Tax	Payment	Credit	Balance

Weekly Forms, con't.

Accounts Receivable:

For the Month of ______________________________

Customer Name	Acc't No.	Total Charges for Month	Amount of Payment	Balance Owed

Customer Billing Form:

Customer Name ______________________________

Account No. Payment Due Date ______________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name ______________________________

Account No. Payment Due Date ______________

Date	Amount Charged	Payment Received	Balance Owing

Customer Billing Forms, con't.

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Customer Name____

Account No. Payment Due Date________________

Date	Amount Charged	Payment Received	Balance Owing

Accounts Payable:

For the Month of ____________________				
Customer Name	Acc't No.	Total Charges for Month	Amount of Payment	Balance Owed

Checks and Check Stubs:

No.________ $__________
Date______________
To______________
For______________
Bal.Bro.For'd.________
Deposit__________
Total______________
Amt.This Ck.________
Balance__________

No.______
Date______________
Pay to the Order of____________________________
____
First National Bank
09-341-6785-01
____

No.________ $__________
Date______________
To______________
For______________
Bal.Bro.For'd.________
Deposit__________
Total______________
Amt.This Ck.________
Balance__________

No.______
Date______________
Pay to the Order of____________________________
____
First National Bank
09-341-6785-01
____

Checks and Check Stubs, con't.

No. ________ $ ________
Date ________
To ________
For ________
Bal.Bro.For'd. ________
Deposit ________
Total ________
Amt.This Ck. ________
Balance ________

No. ________

Date ________

Pay to the Order of ________

____

First National Bank
09-341-6785-01
____

PART C: PERSONNEL RECORDS

1. Tell the class that personnel records are required for keeping track of money paid to employees and money deducted from employee paychecks for taxes and social security.

2. Point out that the employer has a number of responsibilities to the employees he or she hires, whether they are full-time or part-time. Write on the board and discuss the legal requirements that an employer must fulfill with respect to employee deductions.

   a. The employer must make specific tax deductions from the employee's pay. These are for:

      - Social Security: for the current schedules for deductions contact the local Social Security Administration Office.

      - Federal Withholding Tax: for the current schedule for deductions, contact the Internal Revenue Service.

      - State Withholding Tax: for the current schedule for deductions, contact the state income tax division.

   b. Explain that each employee will cost the business more than his or her total salary. The law requires that the employer pay certain costs to provide protection for all regular employees. Write on the board and discuss the items that the employer must pay for each of the company's employees:

      - Social Security: the employer must match the employee's contribution dollar for dollar.

      - Unemployment Insurance: the rate varies by state. For the exact amount, contact the state employment security agency.

      - Workmen's Compensation: this is an employer's insurance policy that is designed to cover any employee injuries sustained in the course of work, regardless of fault. The insurance is now required by all states. For information contact the state Industrial Accident Board.

NOTE TO INSTRUCTOR: The Internal Revenue Service produces a complete small business tax kit. These materials may be helpful in presenting this section to the students. While this volume uses the latest tax tables available for reference in the various exercises, you may wish to obtain current schedules from the I.R.S.

3. Distribute the Personnel Records Package to the class. This should contain:

   - Employee earnings record
   - Payroll register
   - Employee Withholding Allowance Certificate, or W-4 form
   - Federal income tax withholding schedule for a weekly payroll period
   - Federal Social Security employee tax table

4. Explain that the employee earnings record is an individual documentation of each employee's gross earnings and payroll deductions. This will provide the basis for the annual W-2 tax form, which the employer must give to each worker as soon as possible after December 31 of each year: the worker must have the W-2 form in order to prepare his or her personal income tax.

5. The payroll register is a compilation of all employee payroll records for a given pay period. The payroll register will provide the businessperson or accountant with the amount of money paid to employees, the amounts deducted for taxes and the amounts deducted for social security. A new payroll register is made out each time the employees are paid.

6. The W-4 form must be completed by each employee at the time he or she begins work. The W-4 form tells the employer how many deductions the worker is claiming, which will affect the amount of money that is withheld for federal and state income tax purposes.

7. The federal income tax withholding schedule is used in conjunction with the employee's W-4 form to compute the correct amount of tax money to withhold from each paycheck.

   Similarly, the Social Security employee tax table is needed to calculate the correct amount of the employee's--and the employer's--Social Security contribution for each paycheck.

8. Explain to the class that both the Social Security and the Income Tax forms are federal requirements. Point out that for income tax, the amount of taxes or money withheld from an employee's gross earnings will be determined by a) the amount the employee earns and b) by the number of deductions that each employee claims. Explain that deductions are allowances made for each person that the employee is responsible for supporting, (such as children, a non-working husband or wife, and elderly relatives who depend on the wage earner for most of their support). The greater the salary or wage and the fewer the number of deductions, the higher the percentage of gross earnings that must be withheld.

9. Point out that Social Security taxes are also based on the amount that the employee earns, up to a certain amount. The Social Security tax is comprised of two parts: (1) the employee's contribution which is a flat percentage of the total salary up to a specified amount and (2) the employer's contribution which matches the employee contribution. The ceiling for employee deductions or the amount of salary up to which an employee is taxed changes by federal law over the years. Point out that unemployment insurance and workman's compensation are state requirements; most states also have an income tax, although the amount and the nature of the tax varies by state.

   - Unemployment insurance varies to some extent by state. It is paid for by the employer. The amount each employer must pay varies, depending on the number of employees in the company and the company's history of layoffs; the more layoffs the company makes, the higher the rate of unemployment insurance.

   - Workman's compensation is usually arranged through an insurance company, following state guidelines. The amount that the employer must pay is based on the nature of the business (high risk versus low risk), the number of employees in the business, and the company's history of on-the-job accidents.

   - State income tax differs considerably from state to state. For example, some states have an income tax system structured like the federal system in that the larger the salary, the greater the percentage of gross earnings withheld in taxes. Other states use a straight percentage of the total income as a tax base, regardless of the size of the income. A few states have no income tax.

10. Ask students to work through the forms required for each employee using the personnel records fact sheet and for the business beginning with the W-4 form, the earnings record, and the payroll register. The federal income tax and social security tables should be used as a basis for determining the amount withheld from each employee. Assume, for the purposes of this exercise, that there is no state income tax in your state.

    When the class has completed two forms for the first two employees, ask the students to complete the assignment at home.

PERSONNEL RECORDS FACT SHEET

Name	No. Dependents	Marital Status	Soc. Sec. Number	Hourly Wages	Hours Worked	
					Week 1	Week 2
(1) Abrams, Stanley	2	M	259-60-3920	$3.50	40	39
(2) Bernier, Paul	1	S	267-58-6769	$3.75	43	40
(3) Canval, Donald	4	M	361-29-1335	$5.25	39	40
(4) Ethier, Maretta	1	S	267-81-3042	$5.50	40	40
(5) Harney, Charles	3	M	628-43-0419	$4.50	40	43
(6) Kelley, Patricia	2	M	787-22-0990	$4.25	40	25

*40 hours constitutes a normal work week.
Additional work to be compensated at hourly wage rate.

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Form **W-4**
(Rev. December 1978)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

(Use for Wages Paid After December 31, 1978)

This certificate is for income tax withholding purposes only. It will remain in effect until you change it. If you claim exemption from withholding, you will have to file a new certificate on or before April 30 of next year.

Type or print your full name

Your social security number

Home address (number and street or rural route)

City or town, State, and ZIP code

Marital Status

☐ Single ☐ Married
☐ Married, but withhold at higher Single rate

Note: *If married, but legally separated, or spouse is a nonresident alien, check the single block.*

1 Total number of allowances you are claiming . . . .
2 Additional amount, if any, you want deducted from each pay (if your employer agrees) . . . . $
3 I claim exemption from withholding (see instructions). Enter "Exempt" . . . .

Under the penalties of perjury, I certify that the number of withholding allowances claimed on this certificate does not exceed the number to which I am entitled. If claiming exemption from withholding, I certify that I incurred no liability for Federal income tax for last year and I anticipate that I will incur no liability for Federal income tax for this year.

Signature ▶.. Date ▶.., 19........

Form **W-4**
(Rev. December 1978)
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Signature ▶.. Date ▶.., 19........

Employee No. __________ **EARNINGS RECORD**

Name __________ Address __________ Earning Rate __________

Social Security Number __________ Occupation __________ No. of Allowances __________ Marital Status __________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. __________ **EARNINGS RECORD**

Name __________ Address __________ Earning Rate __________

Social Security Number __________ Occupation __________ No. of Allowances __________ Marital Status __________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

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Employee No. __________ **EARNINGS RECORD**

Name __________ Address __________ Earning Rate __________

Social Security Number __________ Occupation __________ No. of Allowances __________ Marital Status __________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

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Form **W-4**
(Rev. December 1978)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

(Use for Wages Paid After December 31, 1978)

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Type or print your full name

Your social security number

Home address (number and street or rural route)

City or town, State, and ZIP code

Marital Status

☐ Single ☐ Married

☐ Married, but withhold at higher Single rate

Note: *If married, but legally separated, or spouse is a nonresident alien, check the single block.*

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Signature ▶ .... Date ▶ .... 19........

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Note: *If married, but legally separated, or spouse is a nonresident alien, check the single block.*

1 Total number of allowances you are claiming . . . . ______
2 Additional amount, if any, you want deducted from each pay (if your employer agrees) . . . . $______
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Note: *If married, but legally separated, or spouse is a nonresident alien, check the single block.*

1 Total number of allowances you are claiming . . . . ______
2 Additional amount, if any, you want deducted from each pay (if your employer agrees) . . . . $______
3 I claim exemption from withholding (see instructions). Enter "Exempt" . . . .

Under the penalties of perjury, I certify that the number of withholding allowances claimed on this certificate does not exceed the number to which I am entitled. If claiming exemption from withholding, I certify that I incurred no liability for Federal income tax for last year and I anticipate that I will incur no liability for Federal income tax for this year.

Signature ▶ .... Date ▶ .... 19........

Employee No. ________ **EARNINGS RECORD**

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. ________ **EARNINGS RECORD**

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

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Employee No. ________ **EARNINGS RECORD**

Name ________ Address ________ Earning Rate ________

Social Security Number ________ Occupation ________ No. of Allowances ________ Marital Status ________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. ____________ **EARNINGS RECORD**

Name ______________________ Address ______________________ Earning Rate __________

Social Security Number __________ Occupation __________ No. of Allowances ______ Marital Status __________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. ____________ **EARNINGS RECORD**

Name ______________________ Address ______________________ Earning Rate __________

Social Security Number __________ Occupation __________ No. of Allowances ______ Marital Status __________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

Employee No. ____________ **EARNINGS RECORD**

Name ______________________ Address ______________________ Earning Rate __________

Social Security Number __________ Occupation __________ No. of Allowances ______ Marital Status __________

No.	Week Ending	Total Hours		Earnings			Deductions			Net Pay	Cumulative Earnings
		Reg.	Over.	Reg.	Over.	Total	FICA	Inc. Tax	Total		
1											
2											

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NO. ____________

WEEK ENDING JANUARY 29, ____________ 19 —

DATE PAID ____________ 19 ____

PAYROLL REGISTER

EMP. NO.	EMPLOYEE	MARITAL STATUS	NO. OF ALLOW.	TOTAL HOURS		RATE PER HOUR		EARNINGS			DEDUCTIONS			NET PAY
				REGULAR	OVERTIME	REGULAR	OVERTIME	REGULAR	OVERTIME	TOTAL	FICA TAX	INCOME TAX	TOTAL	
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														
11														
12														
13														
14														
15														
16														
17														
18														
19														
20														
21														
22														
	TOTALS													

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PROJECT 5, PART F, JOB 2

Name ____________

FEDERAL INCOME TAX WITHHOLDING SCHEDULE

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WEEKLY Payroll Period— SINGLE Persons

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$20	$25	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
25	26	.10	0	0	0	0	0	0	0	0	0	0
26	27	.30	0	0	0	0	0	0	0	0	0	0
27	28	.40	0	0	0	0	0	0	0	0	0	0
28	29	.60	0	0	0	0	0	0	0	0	0	0
29	30	.70	0	0	0	0	0	0	0	0	0	0
30	31	.90	0	0	0	0	0	0	0	0	0	0
31	32	1.00	0	0	0	0	0	0	0	0	0	0
32	33	1.20	0	0	0	0	0	0	0	0	0	0
33	34	1.40	0	0	0	0	0	0	0	0	0	0
34	35	1.50	0	0	0	0	0	0	0	0	0	0
35	36	1.70	0	0	0	0	0	0	0	0	0	0
36	37	1.80	0	0	0	0	0	0	0	0	0	0
37	38	2.00	0	0	0	0	0	0	0	0	0	0
38	39	2.20	0	0	0	0	0	0	0	0	0	0
39	40	2.30	0	0	0	0	0	0	0	0	0	0
40	41	2.50	.20	0	0	0	0	0	0	0	0	0
41	42	2.60	.30	0	0	0	0	0	0	0	0	0
42	43	2.80	.50	0	0	0	0	0	0	0	0	0
43	44	3.00	.70	0	0	0	0	0	0	0	0	0
44	45	3.10	.80	0	0	0	0	0	0	0	0	0
45	46	3.30	1.00	0	0	0	0	0	0	0	0	0
46	47	3.40	1.10	0	0	0	0	0	0	0	0	0
47	48	3.60	1.30	0	0	0	0	0	0	0	0	0
48	49	3.80	1.50	0	0	0	0	0	0	0	0	0
49	50	3.90	1.60	0	0	0	0	0	0	0	0	0
50	51	4.10	1.80	0	0	0	0	0	0	0	0	0
51	52	4.20	1.90	0	0	0	0	0	0	0	0	0
52	53	4.40	2.10	0	0	0	0	0	0	0	0	0
53	54	4.60	2.30	0	0	0	0	0	0	0	0	0

At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
54	55	4.70	2.40	.10	0	0	0	0	0	0	0	0
55	56	4.90	2.60	.30	0	0	0	0	0	0	0	0
56	57	5.00	2.70	.40	0	0	0	0	0	0	0	0
57	58	5.20	2.90	.60	0	0	0	0	0	0	0	0
58	59	5.40	3.10	.70	0	0	0	0	0	0	0	0
59	60	5.50	3.20	.80	0	0	0	0	0	0	0	0
60	62	5.80	3.50	1.10	0	0	0	0	0	0	0	0
62	64	6.10	3.80	1.50	0	0	0	0	0	0	0	0
64	66	6.40	4.10	1.80	0	0	0	0	0	0	0	0
66	68	6.70	4.40	2.10	0	0	0	0	0	0	0	0
68	70	7.10	4.70	2.40	.10	0	0	0	0	0	0	0
70	72	7.50	5.10	2.70	.40	0	0	0	0	0	0	0
72	74	7.90	5.40	3.10	.80	0	0	0	0	0	0	0
74	76	8.30	5.70	3.40	1.10	0	0	0	0	0	0	0
76	78	8.70	6.00	3.70	1.40	0	0	0	0	0	0	0
78	80	9.10	6.30	4.00	1.70	0	0	0	0	0	0	0
80	82	9.50	6.70	4.30	2.00	0	0	0	0	0	0	0
82	84	9.90	7.00	4.70	2.40	0	0	0	0	0	0	0
84	86	10.30	7.40	5.00	2.70	.40	0	0	0	0	0	0
86	88	10.70	7.80	5.30	3.00	.70	0	0	0	0	0	0
88	90	11.10	8.20	5.60	3.30	1.00	0	0	0	0	0	0
90	92	11.50	8.60	5.90	3.60	1.30	0	0	0	0	0	0
92	94	11.90	9.00	6.30	4.00	1.60	0	0	0	0	0	0
94	96	12.30	9.40	6.60	4.30	2.00	0	0	0	0	0	0
96	98	12.70	9.80	6.90	4.60	2.30	0	0	0	0	0	0
98	100	13.10	10.20	7.30	4.90	2.60	.30	0	0	0	0	0
100	105	13.80	10.90	8.00	5.50	3.20	.90	0	0	0	0	0
105	110	14.80	11.90	9.00	6.20	4.00	1.70	0	0	0	0	0
110	115	15.80	12.90	10.00	7.20	4.80	2.50	.30	0	0	0	0
115	120	16.80	13.90	11.00	8.20	5.60	3.30	1.00	0	0	0	0

WEEKLY Payroll Period— SINGLE Persons

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$120	$125	$18.00	$14.90	$12.00	$9.20	$6.40	$4.10	$1.80	$0	$0	$0	$0
125	130	19.20	15.90	13.00	10.20	7.20	4.90	2.60	.20	0	0	0
130	135	20.30	17.00	14.00	11.20	8.20	5.70	3.40	1.00	0	0	0
135	140	21.50	18.20	15.00	12.20	9.20	6.50	4.20	1.80	0	0	0
140	145	22.80	19.30	16.00	13.20	10.20	7.40	5.00	2.60	.20	0	0
145	150	23.80	20.50	17.10	14.20	11.30	8.40	5.80	3.40	1.10	0	0
150	160	25.50	22.20	18.90	15.70	12.80	9.80	7.00	4.60	2.30	0	0
160	170	27.80	24.50	21.20	17.80	14.80	11.80	9.00	6.20	3.90	1.60	0
170	180	30.10	26.80	23.50	20.10	16.80	13.80	11.00	8.10	5.50	3.20	.80
180	190	32.40	29.10	25.80	22.40	19.10	15.80	13.00	10.10	7.20	4.80	2.50
190	200	34.50	31.40	28.10	24.70	21.40	18.10	15.00	12.10	9.20	6.40	4.10
200	210	36.60	33.50	30.40	27.00	23.70	20.40	17.10	14.10	11.20	8.30	5.70
210	220	38.70	35.60	32.60	29.30	26.00	22.70	19.40	16.10	13.20	10.30	7.50
220	230	40.80	37.70	34.70	31.60	28.30	25.00	21.70	18.40	15.20	12.30	9.50
230	240	42.90	39.80	36.80	33.80	30.60	27.30	24.00	20.70	17.40	14.30	11.50
240	250	45.30	41.90	38.90	35.90	32.80	29.60	26.30	23.00	19.70	16.30	13.50
250	260	47.80	44.00	41.00	38.00	34.90	31.80	28.60	25.30	22.00	18.60	15.50
260	270	50.40	46.60	43.10	40.10	37.00	34.00	30.90	27.60	24.30	20.90	17.80
270	280	53.00	49.20	45.50	42.20	39.10	36.10	33.10	29.90	26.60	23.20	19.90
280	290	55.60	51.80	48.10	44.30	41.20	38.20	35.20	32.10	28.90	25.50	22.20
290	300	58.60	54.50	50.70	46.90	43.30	40.30	37.30	34.20	31.20	27.80	24.50
300	310	61.60	57.50	53.30	49.50	45.80	42.40	39.40	36.30	33.30	30.10	26.80
310	320	64.60	60.50	56.20	52.10	48.40	44.80	41.50	38.40	35.40	32.20	29.10
320	330	67.60	63.50	59.20	54.80	51.00	47.30	43.80	40.50	37.50	34.30	31.40
330	340	70.60	66.50	62.20	57.80	53.60	49.80	46.10	42.60	39.60	36.60	33.60
340	350	73.80	69.50	65.20	60.80	56.50	52.40	48.70	44.90	41.70	38.70	35.70
350	360	77.40	72.50	68.20	63.80	59.50	55.20	51.30	47.50	43.80	40.80	37.80
360	370	81.00	75.80	71.20	66.80	62.50	58.20	53.90	50.10	46.40	42.90	39.90
370	380	84.60	79.40	74.20	69.80	65.50	61.20	56.90	52.70	49.00	45.20	42.00
380	390	88.20	83.00	77.80	72.80	68.50	64.20	59.90	55.30	51.60	47.80	44.10

At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
390	400	91.80	86.60	81.40	76.20	71.50	67.20	62.90	58.50	54.20	50.40	46.70
400	410	95.40	90.20	85.00	79.80	74.80	70.20	65.90	61.50	57.20	53.00	49.30
410	420	99.00	93.80	88.60	83.40	78.20	73.20	68.90	64.50	60.20	55.90	51.90
420	430	102.60	97.40	92.20	87.00	81.80	76.60	71.90	67.50	63.20	58.90	54.60
430	440	106.20	101.00	95.80	90.60	85.40	80.20	75.00	70.50	66.20	61.90	57.20
440	450	109.80	104.60	99.40	94.20	89.00	83.80	78.60	73.50	69.20	64.90	60.60
450	460	113.40	108.20	103.00	97.80	92.60	87.40	82.20	77.00	72.20	67.90	63.60
460	470	117.00	111.80	106.60	101.40	96.20	91.00	85.80	80.60	75.40	70.90	66.60
470	480	120.60	115.40	110.20	105.00	99.80	94.60	89.40	84.20	79.00	73.90	69.60
480	490	124.20	119.00	113.80	108.60	103.40	98.20	93.00	87.80	82.60	77.40	72.60
490	500	127.80	122.60	117.40	112.20	107.00	101.80	96.60	91.40	86.20	81.00	75.80
500	510	131.40	126.20	121.00	115.80	110.60	105.40	100.20	95.00	89.80	84.60	79.40
510	520	135.00	129.80	124.60	119.40	114.20	109.00	103.80	98.60	93.40	88.20	83.00
520	530	138.60	133.40	128.20	123.00	117.80	112.60	107.40	102.20	97.00	91.80	86.60
530	540	142.20	137.00	131.80	126.60	121.40	116.20	111.00	105.80	100.60	95.40	90.20
540	550	145.80	140.60	135.40	130.20	125.00	119.80	114.60	109.40	104.20	99.00	93.80
550	560	149.40	144.20	139.00	133.80	128.60	123.40	118.20	113.00	107.80	102.60	97.40
560	570	153.00	147.80	142.60	137.40	132.20	127.00	121.80	116.60	111.40	106.20	101.00
570	580	156.60	151.40	146.20	141.00	135.80	130.60	125.40	120.20	115.00	109.80	104.60
580	590	160.20	155.00	149.80	144.60	139.40	134.20	129.00	123.80	118.60	113.40	108.20
590	600	163.80	158.60	153.40	148.20	143.00	137.80	132.60	127.40	122.20	117.00	111.80
600	610	167.40	162.20	157.00	151.80	146.60	141.40	136.20	131.00	125.80	120.60	115.40
610	620	171.00	165.80	160.60	155.40	150.20	145.00	139.80	134.60	129.40	124.20	119.00
620	630	174.60	169.40	164.20	159.00	153.80	148.60	143.40	138.20	133.00	127.80	122.60
630	640	178.20	173.00	167.80	162.60	157.40	152.20	147.00	141.80	136.60	131.40	126.20
		36 percent of the excess over $640 plus—										
$640 and over		180.00	174.80	169.60	164.40	159.20	154.00	148.80	143.60	138.40	133.20	128.00

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WEEKLY Payroll Period—MARRIED Persons

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$46	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
46	48	.10	0	0	0	0	0	0	0	0	0	0
48	50	.20	0	0	0	0	0	0	0	0	0	0
50	51	.40	0	0	0	0	0	0	0	0	0	0
51	52	.60	0	0	0	0	0	0	0	0	0	0
52	53	.80	0	0	0	0	0	0	0	0	0	0
53	54	.90	0	0	0	0	0	0	0	0	0	0
54	55	1.10	0	0	0	0	0	0	0	0	0	0
55	56	1.20	0	0	0	0	0	0	0	0	0	0
56	57	1.40	0	0	0	0	0	0	0	0	0	0
57	58	1.60	0	0	0	0	0	0	0	0	0	0
58	59	1.80	0	0	0	0	0	0	0	0	0	0
59	60	1.90	0	0	0	0	0	0	0	0	0	0
60	62	2.20	0	0	0	0	0	0	0	0	0	0
62	64	2.50	.10	0	0	0	0	0	0	0	0	0
64	66	2.90	.40	0	0	0	0	0	0	0	0	0
66	68	3.20	.80	0	0	0	0	0	0	0	0	0
68	70	3.60	1.10	0	0	0	0	0	0	0	0	0
70	72	3.90	1.40	0	0	0	0	0	0	0	0	0
72	74	4.20	1.80	0	0	0	0	0	0	0	0	0
74	76	4.60	2.10	0	0	0	0	0	0	0	0	0
76	78	4.90	2.50	0	0	0	0	0	0	0	0	0
78	80	5.30	2.80	.40	0	0	0	0	0	0	0	0
80	82	5.60	3.10	.70	0	0	0	0	0	0	0	0
82	84	5.90	3.50	1.00	0	0	0	0	0	0	0	0
84	86	6.30	3.80	1.40	0	0	0	0	0	0	0	0
86	88	6.60	4.20	1.70	0	0	0	0	0	0	0	0
88	90	7.00	4.50	2.10	0	0	0	0	0	0	0	0
90	92	7.30	4.80	2.40	0	0	0	0	0	0	0	0
92	94	7.60	5.20	2.70	.30	0	0	0	0	0	0	0
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
94	96	8.00	5.50	3.10	.60	0	0	0	0	0	0	0
96	98	8.30	5.90	3.40	1.00	0	0	0	0	0	0	0
98	100	8.70	6.20	3.80	1.30	0	0	0	0	0	0	0
100	105	9.40	6.80	4.30	1.90	0	0	0	0	0	0	0
105	110	10.40	7.70	5.20	2.70	.30	0	0	0	0	0	0
110	115	11.40	8.60	6.00	3.60	1.10	0	0	0	0	0	0
115	120	12.40	9.60	6.90	4.40	2.00	0	0	0	0	0	0
120	125	13.40	10.60	7.70	5.30	2.80	.40	0	0	0	0	0
125	130	14.40	11.60	8.70	6.10	3.70	1.20	0	0	0	0	0
130	135	15.40	12.60	9.70	7.00	4.50	2.10	0	0	0	0	0
135	140	16.40	13.60	10.70	7.80	5.40	2.90	.50	0	0	0	0
140	145	17.40	14.60	11.70	8.60	6.20	3.80	1.30	0	0	0	0
145	150	18.40	15.60	12.70	9.60	7.10	4.60	2.20	0	0	0	0
150	160	19.90	17.10	14.20	11.30	8.40	5.90	3.50	1.00	0	0	0
160	170	21.90	19.10	16.20	13.30	10.40	7.60	5.20	2.70	.30	0	0
170	180	23.90	21.10	18.20	15.30	12.40	9.50	6.90	4.40	2.00	0	0
180	190	25.60	23.10	20.20	17.30	14.40	11.50	8.60	6.10	3.70	1.30	0
190	200	27.30	24.80	22.20	19.30	16.40	13.50	10.60	7.80	5.40	2.90	.50
200	210	29.00	26.50	24.10	21.30	18.40	15.50	12.60	9.80	7.10	4.60	2.20
210	220	30.70	28.20	25.80	23.30	20.40	17.50	14.60	11.80	8.80	6.30	3.90
220	230	32.40	29.90	27.50	25.00	22.40	19.50	16.60	13.80	10.90	8.00	5.60
230	240	34.10	31.60	29.20	26.70	24.30	21.50	18.60	15.80	12.90	10.00	7.30
240	250	35.80	33.30	30.90	28.40	26.00	23.50	20.60	17.80	14.90	12.00	9.10
250	260	37.50	35.00	32.60	30.10	27.70	25.20	22.60	19.80	16.90	14.00	11.10
260	270	39.20	36.70	34.30	31.80	29.40	26.90	24.50	21.80	18.90	16.00	13.10
270	280	41.70	38.40	36.00	33.50	31.10	28.60	26.20	23.70	20.90	18.00	15.10
280	290	44.20	40.60	37.70	35.20	32.80	30.30	27.90	25.40	22.90	20.00	17.10
290	300	46.70	43.10	39.50	36.90	34.50	32.00	29.60	27.10	24.70	22.00	19.10
300	310	49.20	45.60	42.00	38.90	36.20	33.70	31.30	28.80	26.40	23.90	21.10
310	320	51.70	48.10	44.50	40.90	37.90	35.40	33.00	30.50	28.10	25.60	23.10

WEEKLY Payroll Period—MARRIED Persons

And the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$320	$330	$54.20	$50.60	$47.00	$43.40	$39.80	$37.10	$34.70	$32.20	$29.80	$27.30	$24.90
330	340	56.70	53.10	49.50	45.90	42.30	38.80	36.40	33.90	31.50	29.00	26.60
340	350	59.20	55.60	52.00	48.40	44.80	41.30	38.10	35.60	33.20	30.70	28.30
350	360	62.00	58.10	54.50	50.90	47.30	43.70	40.10	37.30	34.90	32.40	30.00
360	370	64.80	60.80	57.00	53.40	49.80	46.30	42.60	39.00	36.60	34.10	31.70
370	380	67.60	63.60	59.50	55.90	52.30	48.70	45.10	41.50	38.30	35.80	33.40
380	390	70.40	66.40	62.30	58.40	54.80	51.20	47.60	44.00	40.40	37.50	35.10
390	400	73.20	69.20	65.10	61.10	57.30	53.70	50.10	46.50	42.90	39.30	36.80
400	410	76.00	72.00	67.90	63.90	59.80	56.20	52.60	49.00	45.40	41.80	38.50
410	420	78.80	74.80	70.70	66.70	62.60	58.70	55.10	51.50	47.90	44.30	40.70
420	430	81.60	77.60	73.50	69.50	65.40	61.40	57.60	54.00	50.40	46.80	43.20
430	440	84.50	80.40	76.30	72.30	68.20	64.20	60.20	56.50	52.90	49.30	45.70
440	450	87.70	83.30	79.10	75.10	71.00	67.00	63.00	59.00	55.40	51.80	48.20
450	460	90.90	86.30	81.90	77.90	73.80	69.80	65.80	61.70	57.90	54.30	50.70
460	470	94.10	89.50	84.90	80.70	76.60	72.60	68.60	64.50	60.50	56.80	53.20
470	480	97.30	92.70	88.10	83.60	79.40	75.40	71.40	67.30	63.30	59.30	55.70
480	490	100.50	95.90	91.30	86.60	82.20	78.20	74.20	70.10	66.10	62.10	58.20
490	500	103.70	99.10	94.50	89.80	85.20	81.00	77.00	72.90	68.90	64.90	60.80
500	510	107.10	102.30	97.70	93.00	88.40	83.80	79.80	75.70	71.70	67.70	63.60
510	520	110.70	105.50	100.90	96.20	91.60	87.00	82.60	78.50	74.50	70.50	66.40
520	530	114.30	109.10	104.10	99.40	94.80	90.20	85.60	81.30	77.30	73.30	69.20
530	540	117.90	112.70	107.50	102.60	98.00	93.40	88.80	84.20	80.10	76.10	72.00
540	550	121.50	116.30	111.10	105.90	101.20	96.60	92.00	87.40	82.90	78.90	74.80
550	560	125.10	119.90	114.70	109.50	104.40	99.80	95.20	90.60	86.00	81.70	77.60
560	570	128.70	123.50	118.30	113.10	107.90	103.00	98.40	93.80	89.20	84.60	80.40
570	580	132.30	127.10	121.90	116.70	111.50	106.30	101.80	97.00	92.40	87.80	83.20
580	590	135.90	130.70	125.50	120.30	115.10	109.90	104.80	100.20	95.60	91.00	86.30
590	600	139.50	134.30	129.10	123.90	118.70	113.50	108.30	103.40	98.80	94.20	89.50
600	610	143.10	137.90	132.70	127.50	122.30	117.10	111.90	106.70	102.00	97.40	92.70
610	620	146.70	141.50	136.30	131.10	125.90	120.70	115.50	110.30	105.20	100.60	95.90
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
620	630	150.30	145.10	139.90	134.70	129.50	124.30	119.10	113.90	108.80	103.80	99.10
630	640	153.90	148.70	143.50	138.30	133.10	127.90	122.70	117.50	112.40	107.20	102.30
640	650	157.50	152.30	147.10	141.90	136.70	131.50	126.30	121.10	116.00	110.80	105.60
650	660	161.10	155.90	150.70	145.50	140.30	135.10	129.90	124.70	119.60	114.40	109.20
660	670	164.70	159.50	154.30	149.10	143.90	138.70	133.50	128.30	123.20	118.00	112.80
670	680	168.30	163.10	157.90	152.70	147.50	142.30	137.10	131.90	126.80	121.60	116.40
680	690	171.90	166.70	161.50	156.30	151.10	145.90	140.70	135.50	130.40	125.20	120.00
690	700	175.50	170.30	165.10	159.90	154.70	149.50	144.30	139.10	134.00	128.80	123.60
700	710	179.10	173.90	168.70	163.50	158.30	153.10	147.90	142.70	137.60	132.40	127.20
710	720	182.70	177.50	172.30	167.10	161.90	156.70	151.50	146.30	141.20	136.00	130.80
720	730	186.30	181.10	175.90	170.70	165.50	160.30	155.10	149.90	144.80	139.60	134.40
730	740	189.90	184.70	179.50	174.30	169.10	163.90	158.70	153.50	148.40	143.20	138.00
740	750	193.50	188.30	183.10	177.90	172.70	167.50	162.30	157.10	152.00	146.80	141.60
750	760	197.10	191.90	186.70	181.50	176.30	171.10	165.90	160.70	155.60	150.40	145.20
760	770	200.70	195.50	190.30	185.10	179.90	174.70	169.50	164.30	159.20	154.00	148.80
770	780	204.30	199.10	193.90	188.70	183.50	178.30	173.10	167.90	162.80	157.60	152.40
780	790	207.90	202.70	197.50	192.30	187.10	181.90	176.70	171.50	166.40	161.20	156.00
790	800	211.50	206.30	201.10	195.90	190.70	185.50	180.30	175.10	170.00	164.80	159.60
800	810	215.10	209.90	204.70	199.50	194.30	189.10	183.90	178.70	173.60	168.40	163.20
810	820	218.70	213.50	208.30	203.10	197.90	192.70	187.50	182.30	177.20	172.00	166.80
820	830	222.30	217.10	211.90	206.70	201.50	196.30	191.10	185.90	180.80	175.60	170.40
830	840	225.90	220.70	215.50	210.30	205.10	199.90	194.70	189.50	184.40	179.20	174.00
840	850	229.50	224.30	219.10	213.90	208.70	203.50	198.30	193.10	188.00	182.80	177.60
850	860	233.10	227.90	222.70	217.50	212.30	207.10	201.90	196.70	191.60	186.40	181.20
860	870	236.70	231.50	226.30	221.10	215.90	210.70	205.50	200.30	195.20	190.00	184.80
		36 percent of the excess over $870 plus—										
$870 and over		238.50	233.30	228.10	222.90	217.70	212.50	207.30	202.10	197.00	191.80	186.60

Social Security Employee Tax Table

5.85 percent employee tax deductions

Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld
At least	But less than		At least	But less than		At least	But less than		At least	But less than	
$133.25	$133.42	$7.80	$144.36	$144.53	$8.45	$155.48	$155.65	$9.10	$166.59	$166.76	$9.75
133.42	133.59	7.81	144.53	144.71	8.46	155.65	155.82	9.11	166.76	166.93	9.76
133.59	133.77	7.82	144.71	144.88	8.47	155.82	155.99	9.12	166.93	167.10	9.77
133.77	133.94	7.83	144.88	145.05	8.48	155.99	156.16	9.13	167.10	167.27	9.78
133.94	134.11	7.84	145.05	145.22	8.49	156.16	156.33	9.14	167.27	167.44	9.79
134.11	134.28	7.85	145.22	145.39	8.50	156.33	156.50	9.15	167.44	167.61	9.80
134.28	134.45	7.86	145.39	145.56	8.51	156.50	156.67	9.16	167.61	167.78	9.81
134.45	134.62	7.87	145.56	145.73	8.52	156.67	156.84	9.17	167.78	167.95	9.82
134.62	134.79	7.88	145.73	145.90	8.53	156.84	157.01	9.18	167.95	168.12	9.83
134.79	134.96	7.89	145.90	146.07	8.54	157.01	157.18	9.19	168.12	168.30	9.84
134.96	135.13	7.90	146.07	146.24	8.55	157.18	157.36	9.20	168.30	168.47	9.85
135.13	135.30	7.91	146.24	146.42	8.56	157.36	157.53	9.21	168.47	168.64	9.86
135.30	135.48	7.92	146.42	146.59	8.57	157.53	157.70	9.22	168.64	168.81	9.87
135.48	135.65	7.93	146.59	146.76	8.58	157.70	157.87	9.23	168.81	168.98	9.88
135.65	135.82	7.94	146.76	146.93	8.59	157.87	158.04	9.24	168.98	169.15	9.89
135.82	135.99	7.95	146.93	147.10	8.60	158.04	158.21	9.25	169.15	169.32	9.90
135.99	136.16	7.96	147.10	147.27	8.61	158.21	158.38	9.26	169.32	169.49	9.91
136.16	136.33	7.97	147.27	147.44	8.62	158.38	158.55	9.27	169.49	169.66	9.92
136.33	136.50	7.98	147.44	147.61	8.63	158.55	158.72	9.28	169.66	169.83	9.93
136.50	136.67	7.99	147.61	147.78	8.64	158.72	158.89	9.29	169.83	170.00	9.94
136.67	136.84	8.00	147.78	147.95	8.65	158.89	159.06	9.30	170.00	170.18	9.95
136.84	137.01	8.01	147.95	148.12	8.66	159.06	159.24	9.31	170.18	170.35	9.96
137.01	137.18	8.02	148.12	148.30	8.67	159.24	159.41	9.32	170.35	170.52	9.97
137.18	137.36	8.03	148.30	148.47	8.68	159.41	159.58	9.33	170.52	170.69	9.98
137.36	137.53	8.04	148.47	148.64	8.69	159.58	159.75	9.34	170.69	170.86	9.99
137.53	137.70	8.05	148.64	148.81	8.70	159.75	159.92	9.35	170.86	171.03	10.00
137.70	137.87	8.06	148.81	148.98	8.71	159.92	160.09	9.36	171.03	171.20	10.01
137.87	138.04	8.07	148.98	149.15	8.72	160.09	160.26	9.37	171.20	171.37	10.02
138.04	138.21	8.08	149.15	149.32	8.73	160.26	160.43	9.38	171.37	171.54	10.03
138.21	138.38	8.09	149.32	149.49	8.74	160.43	160.60	9.39	171.54	171.71	10.04
138.38	138.55	8.10	149.49	149.66	8.75	160.60	160.77	9.40	171.71	171.89	10.05
138.55	138.72	8.11	149.66	149.83	8.76	160.77	160.95	9.41	171.89	172.06	10.06
138.72	138.89	8.12	149.83	150.00	8.77	160.95	161.12	9.42	172.06	172.23	10.07
138.89	139.06	8.13	150.00	150.18	8.78	161.12	161.29	9.43	172.23	172.40	10.08
139.06	139.24	8.14	150.18	150.35	8.79	161.29	161.46	9.44	172.40	172.57	10.09
139.24	139.41	8.15	150.35	150.52	8.80	161.46	161.63	9.45	172.57	172.74	10.10
139.41	139.58	8.16	150.52	150.69	8.81	161.63	161.80	9.46	172.74	172.91	10.11
139.58	139.75	8.17	150.69	150.86	8.82	161.80	161.97	9.47	172.91	173.08	10.12
139.75	139.92	8.18	150.86	151.03	8.83	161.97	162.14	9.48	173.08	173.25	10.13
139.92	140.09	8.19	151.03	151.20	8.84	162.14	162.31	9.49	173.25	173.42	10.14
140.09	140.26	8.20	151.20	151.37	8.85	162.31	162.48	9.50	173.42	173.59	10.15
140.26	140.43	8.21	151.37	151.54	8.86	162.48	162.65	9.51	173.59	173.77	10.16
140.43	140.60	8.22	151.54	151.71	8.87	162.65	162.83	9.52	173.77	173.94	10.17
140.60	140.77	8.23	151.71	151.89	8.88	162.83	163.00	9.53	173.94	174.11	10.18
140.77	140.95	8.24	151.89	152.06	8.89	163.00	163.17	9.54	174.11	174.28	10.19
140.95	141.12	8.25	152.06	152.23	8.90	163.17	163.34	9.55	174.28	174.45	10.20
141.12	141.29	8.26	152.23	152.40	8.91	163.34	163.51	9.56	174.45	174.62	10.21
141.29	141.46	8.27	152.40	152.57	8.92	163.51	163.68	9.57	174.62	174.79	10.22
141.46	141.63	8.28	152.57	152.74	8.93	163.68	163.85	9.58	174.79	174.96	10.23
141.63	141.80	8.29	152.74	152.91	8.94	163.85	164.02	9.59	174.96	175.13	10.24
141.80	141.97	8.30	152.91	153.08	8.95	164.02	164.19	9.60	175.13	175.30	10.25
141.97	142.14	8.31	153.08	153.25	8.96	164.19	164.36	9.61	175.30	175.48	10.26
142.14	142.31	8.32	153.25	153.42	8.97	164.36	164.53	9.62	175.48	175.65	10.27
142.31	142.48	8.33	153.42	153.59	8.98	164.53	164.71	9.63	175.65	175.82	10.28
142.48	142.65	8.34	153.59	153.77	8.99	164.71	164.88	9.64	175.82	175.99	10.29
142.65	142.83	8.35	153.77	153.94	9.00	164.88	165.05	9.65	175.99	176.16	10.30
142.83	143.00	8.36	153.94	154.11	9.01	165.05	165.22	9.66	176.16	176.33	10.31
143.00	143.17	8.37	154.11	154.28	9.02	165.22	165.39	9.67	176.33	176.50	10.32
143.17	143.34	8.38	154.28	154.45	9.03	165.39	165.56	9.68	176.50	176.67	10.33
143.34	143.51	8.39	154.45	154.62	9.04	165.56	165.73	9.69	176.67	176.84	10.34
143.51	143.68	8.40	154.62	154.79	9.05	165.73	165.90	9.70	176.84	177.01	10.35
143.68	143.85	8.41	154.79	154.96	9.06	165.90	166.07	9.71	177.01	177.18	10.36
143.85	144.02	8.42	154.96	155.13	9.07	166.07	166.24	9.72	177.18	177.36	10.37
144.02	144.19	8.43	155.13	155.30	9.08	166.24	166.42	9.73	177.36	177.53	10.38
144.19	144.36	8.44	155.30	155.48	9.09	166.42	166.59	9.74	177.53	177.70	10.39

Social Security Employee Tax Table

5.85 percent employee tax deductions

Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld	Wages		Tax to be withheld
At least	But less than		At least	But less than		At least	But less than		At least	But less than	
$177.70	$177.87	$10.40	$188.81	$188.98	$11.05	$199.92	$200.09	$11.70	$211.03	$211.20	$12.35
177.87	178.04	10.41	188.98	189.15	11.06	200.09	200.26	11.71	211.20	211.37	12.36
178.04	178.21	10.42	189.15	189.32	11.07	200.26	200.43	11.72	211.37	211.54	12.37
178.21	178.38	10.43	189.32	189.49	11.08	200.43	200.60	11.73	211.54	211.71	12.38
178.38	178.55	10.44	189.49	189.66	11.09	200.60	200.77	11.74	211.71	211.89	12.39
178.55	178.72	10.45	189.66	189.83	11.10	200.77	200.95	11.75	211.89	212.06	12.40
178.72	178.89	10.46	189.83	190.00	11.11	200.95	201.12	11.76	212.06	212.23	12.41
178.89	179.06	10.47	190.00	190.18	11.12	201.12	201.29	11.77	212.23	212.40	12.42
179.06	179.24	10.48	190.18	190.35	11.13	201.29	201.46	11.78	212.40	212.57	12.43
179.24	179.41	10.49	190.35	190.52	11.14	201.46	201.63	11.79	212.57	212.74	12.44
179.41	179.58	10.50	190.52	190.69	11.15	201.63	201.80	11.80	212.74	212.91	12.45
179.58	179.75	10.51	190.69	190.86	11.16	201.80	201.97	11.81	212.91	213.08	12.46
179.75	179.92	10.52	190.86	191.03	11.17	201.97	202.14	11.82	213.08	213.25	12.47
179.92	180.09	10.53	191.03	191.20	11.18	202.14	202.31	11.83	213.25	213.42	12.48
180.09	180.26	10.54	191.20	191.37	11.19	202.31	202.48	11.84	213.42	213.59	12.49
180.26	180.43	10.55	191.37	191.54	11.20	202.48	202.65	11.85	213.59	213.77	12.50
180.43	180.60	10.56	191.54	191.71	11.21	202.65	202.83	11.86	213.77	213.94	12.51
180.60	180.77	10.57	191.71	191.89	11.22	202.83	203.00	11.87	213.94	214.11	12.52
180.77	180.95	10.58	191.89	192.06	11.23	203.00	203.17	11.88	214.11	214.28	12.53
180.95	181.12	10.59	192.06	192.23	11.24	203.17	203.34	11.89	214.28	214.45	12.54
181.12	181.29	10.60	192.23	192.40	11.25	203.34	203.51	11.90	214.45	214.62	12.55
181.29	181.46	10.61	192.40	192.57	11.26	203.51	203.68	11.91	214.62	214.79	12.56
181.46	181.63	10.62	192.57	192.74	11.27	203.68	203.85	11.92	214.79	214.96	12.57
181.63	181.80	10.63	192.74	192.91	11.28	203.85	204.02	11.93	214.96	215.13	12.58
181.80	181.97	10.64	192.91	193.08	11.29	204.02	204.19	11.94	215.13	215.30	12.59
181.97	182.14	10.65	193.08	193.25	11.30	204.19	204.36	11.95	215.30	215.48	12.60
182.14	182.31	10.66	193.25	193.42	11.31	204.36	204.53	11.96	215.48	215.65	12.61
182.31	182.48	10.67	193.42	193.59	11.32	204.53	204.71	11.97	215.65	215.82	12.62
182.48	182.65	10.68	193.59	193.77	11.33	204.71	204.88	11.98	215.82	215.99	12.63
182.65	182.83	10.69	193.77	193.94	11.34	204.88	205.05	11.99	215.99	216.16	12.64
182.83	183.00	10.70	193.94	194.11	11.35	205.05	205.22	12.00	216.16	216.33	12.65
183.00	183.17	10.71	194.11	194.28	11.36	205.22	205.39	12.01	216.33	216.50	12.66
183.17	183.34	10.72	194.28	194.45	11.37	205.39	205.56	12.02	216.50	216.67	12.67
183.34	183.51	10.73	194.45	194.62	11.38	205.56	205.73	12.03	216.67	216.84	12.68
183.51	183.68	10.74	194.62	194.79	11.39	205.73	205.90	12.04	216.84	217.01	12.69
183.68	183.85	10.75	194.79	194.96	11.40	205.90	206.07	12.05	217.01	217.18	12.70
183.85	184.02	10.76	194.96	195.13	11.41	206.07	206.24	12.06	217.18	217.36	12.71
184.02	184.19	10.77	195.13	195.30	11.42	206.24	206.42	12.07	217.36	217.53	12.72
184.19	184.36	10.78	195.30	195.48	11.43	206.42	206.59	12.08	217.53	217.70	12.73
184.36	184.53	10.79	195.48	195.65	11.44	206.59	206.76	12.09	217.70	217.87	12.74
184.53	184.71	10.80	195.65	195.82	11.45	206.76	206.93	12.10	217.87	218.04	12.75
184.71	184.88	10.81	195.82	195.99	11.46	206.93	207.10	12.11	218.04	218.21	12.76
184.88	185.05	10.82	195.99	196.16	11.47	207.10	207.27	12.12	218.21	218.38	12.77
185.05	185.22	10.83	196.16	196.33	11.48	207.27	207.44	12.13	218.38	218.55	12.78
185.22	185.39	10.84	196.33	196.50	11.49	207.44	207.61	12.14	218.55	218.72	12.79
185.39	185.56	10.85	196.50	196.67	11.50	207.61	207.78	12.15	218.72	218.89	12.80
185.56	185.73	10.86	196.67	196.84	11.51	207.78	207.95	12.16	218.89	219.06	12.81
185.73	185.90	10.87	196.84	197.01	11.52	207.95	208.12	12.17	219.06	219.24	12.82
185.90	186.07	10.88	197.01	197.18	11.53	208.12	208.30	12.18	219.24	219.41	12.83
186.07	186.24	10.89	197.18	197.36	11.54	208.30	208.47	12.19	219.41	219.58	12.84
186.24	186.42	10.90	197.36	197.53	11.55	208.47	208.64	12.20	219.58	219.75	12.85
186.42	186.59	10.91	197.53	197.70	11.56	208.64	208.81	12.21	219.75	219.92	12.86
186.59	186.76	10.92	197.70	197.87	11.57	208.81	208.98	12.22	219.92	220.09	12.87
186.76	186.93	10.93	197.87	198.04	11.58	208.98	209.15	12.23	220.09	220.26	12.88
186.93	187.10	10.94	198.04	198.21	11.59	209.15	209.32	12.24	220.26	220.43	12.89
187.10	187.27	10.95	198.21	198.38	11.60	209.32	209.49	12.25	220.43	220.60	12.90
187.27	187.44	10.96	198.38	198.55	11.61	209.49	209.66	12.26	220.60	220.77	12.91
187.44	187.61	10.97	198.55	198.72	11.62	209.66	209.83	12.27	220.77	220.95	12.92
187.61	187.78	10.98	198.72	198.89	11.63	209.83	210.00	12.28	220.95	221.12	12.93
187.78	187.95	10.99	198.89	199.06	11.64	210.00	210.18	12.29	221.12	221.29	12.94
187.95	188.12	11.00	199.06	199.24	11.65	210.18	210.35	12.30	221.29	221.46	12.95
188.12	188.30	11.01	199.24	199.41	11.66	210.35	210.52	12.31	221.46	221.63	12.96
188.30	188.47	11.02	199.41	199.58	11.67	210.52	210.69	12.32	221.63	221.80	12.97
188.47	188.64	11.03	199.58	199.75	11.68	210.69	210.86	12.33	221.80	221.97	12.98
188.64	188.81	11.04	199.75	199.92	11.69	210.86	211.03	12.34	221.97	222.14	12.99

PART D: IT'S YOUR BUSINESS (V)

1. Tell students what forms they have been working with in this unit are used in many businesses, but they have been simplified in some cases to apply as broadly as possible to different types of businesses. For example, an order or inventory form for some businesses may require a careful listing of the coded order numbers of each type and brand of merchandise; conversely, others may not need order forms or inventory sheets at all. Businesses that allow customers to purchase goods and services on credit will need many of the forms contained in the unit, while somewhat different forms are needed by businesses that subscribe to the credit services of a large company, such as Master Charge or American Express. Obviously, businesses that do not extend credit to customers will not need any of the forms required to document credit transactions.

2. Point out that some records will be common to all businesses, especially those which must be maintained for federal and state tax reporting purposes, including employee deductions and employer contributions.

3. To complete the project, students will need the advice of their business advisors as well as a clear idea of their own points of view about business practices and policies, Credit policies are stressed since they strongly affect a business record-keeping requirements.

4. Distribute the student project worksheet, "Systems and Records for My Business."

PROJECT WORKSHEET
SYSTEMS AND RECORDS FOR MY BUSINESS

There are few businesses which can operate efficiently in the basis of entirely standard record-keeping forms such as the ones you have worked with in this unit. Most businesses tailor their record-keeping procedures to their specific information needs, keeping in mind credit, personnel, type of merchandise in service, inventory needs, and other factors affecting what they need to know and when and how they need to know it.

There are three parts to the student project for this unit. Consult your business advisor as you prepare it.

1. Decide on a credit policy for your buisness. Base your decision on:

    - the possible costs of providing credit;
    - the type of merchandise or services you will sell; and
    - the advantages or disadvantages in providing credit to customers.

    Write a paragraph describing your policy towards credit, the type of credit you believe is most practical for you (if you plan to extend credit) and the reasons for your decision.

2. List the forms and the items of information in each which appear to be essential to your business. Base your choice on information obtained from your advisor and your own knowledge of the business field you plan to enter. Explain what each form will be used for.

    The forms included in class exercises will provide guidelines for information items, but you will probably need to add specific items which are important to the type of business you plan to operate. Explain the purpose of each additional item of information.

3. Design three forms which are essential records for your business. Tailor these to the need for information, the clarity with which information is presented, and the design of the forms which you find most pleasing.

UNIT VI PRICING

SUMMARY: To be successful, the small businessperson must establish prices for goods and/or services that are appealing to customers, competitive with similar business firms, and which allow for sufficient profit. To aid the entrepreneur in this endeavor, a break-even analysis should be used.

STUDENT LEARNING OBJECTIVES:

- Discuss factors that affect pricing
- Discuss strategies in pricing goods and services and the consequences of those strategies.
- Compute a gross margin percentage correctly.
- Compute a break-even point correctly.
- Anticipate pricing factors that will affect student's projected small business.

TEACHING STRATEGIES:

Part A: Pricing Factors: discussion, worksheet information sheet

Part B: Pricing Policies: discussion, worksheet board exercise

Part C: Break Even Analysis: discussion, worksheet

Part D: It's Your Business (VI): worksheet

MATERIALS PREPARATION:

Part A: Duplicate "Pricing the Jam," "Spending Decisions," "Pricing factors"

Part B: None

Part C: Duplicate "Break-even Points"

Part D: Duplicate "Project Worksheet"

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

7. "Women and Mathematics." The problem describes

Women and Minority Entrepreneurs: (Continued)

Tasha Jones, who was an excellent math student as a child and had elaborate plans for a math-related career, but who was barely passing math in high school and no longer thought of math in carrer terms.

Other Mini-Problems:

1. "Maria Williams." She raised her prices on an essential item because she temporarily had no competition.

2. "Maria Williams and the Customer." Students are asked to play the role of Maria Williams and one of her customers in the situation described in the previous problem.

6. "Potting Mixture." A plant store owner must consider substituting vermiculite for some potting soil as a means to cut costs, even though the plant won't thrive as well.

19. "Mathematics." Students consider their feelings about mathematics, an important ability for a business-person to have.

33. "Credit Card." The owner of a farm supply company has begun credit card service and, despite raising selling prices to cover the cost of the service, the owner finds that profits have decreased.

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PART A: PRICING FACTORS

1. Introduce the unit by distributing the worksheet "Pricing the Jam." The worksheet may either be read aloud and the questions worked out in sequence, or it may be used as an individual student exercise assigned as homework.

   Answers to the questions:

   1. Cost of the jam = $.67 per jar or $67 for 100 jars ($.40 for ingredients and $.27 for each jar).
   2. $67 for jam (100 jars)--$12 for labor (two employees for two hours each @ $3.00 per hour)--$5 for delivery (taxi fare).
   3. $84 total expenses incurred in making and delivering jam.
   4. $.85 minimum price that may be charged.
   5. Leeway in pricing is between $.85 and $1.25 per jar.
   6. To break even, you must charge $1.05 per jar if you sell only 80 jars.
   7. Profit of 100 jars sold at $1.00 = $16.
   8. Profit of 100 jars sold at $1.15 = $31.

      (Gross profit and net profit will be discussed in Part B.)
   9. (Answers to be provided through class discussion).
   10. Attractiveness to your booth, of your packaging, courtesy of people selling the jam, bad weather, advertising. (Advertising would add to expenses unless the materials and labor are donated.)

   Save the worksheets for an exercise in Part B.

2. Lead students in formulating a definition for pricing. (Determining the dollar amount consumers will be charged for goods and services offered by a business.)

3. Distribute to each student a copy of "Spending Decisions." Discuss each problem in turn, eliciting from students the various factors that affect their decisions. Problem A, for instance, should elicit

these factors: personal service, location, convenience, price. The factors illustrated in B are price, services (gift wrap, assistance, return policy, delivery, repair), image, and credit. The factors illustrated in C are value (desirability), price. Problem D points out these factors: quick service, quality of work, insurance on your house and on the workers.

4. Discuss with students the fact that although customers look for the best price on a product or service, they also weigh other factors. Entrepreneurs have to consider these factors in pricing their goods or services.

5. Distribute to each student a copy of the Information Sheet, "Pricing Factors." The sheet is prepared in outline form so that students can take notes as each of the factors is discussed.

6. Discuss with students each of the pricing factors on the information sheet, eliciting from them as much information and as many examples as possible. Use the following information to elaborate on and to clarify terms:

   (1) Cost: The basic factor in determining the selling price of goods is the cost to the retailer of the merchandise. To determine the total cost of merchandise, add the transportation charges to the supplier's price. For example, if the supplier's price of a piece of merchandise is $10 and the transportation charge is $.75, the total cost of that article is $10.75. For a small business that offers a service rather than a product, this factor has much less significance. Repair shops, for instance, have to consider the cost of the parts they use, but their biggest expenses are salaries and equipment. An errand service, a real estate agent, or another small business that deals exclusively in services has no cost of merchandise to consider, so the following factors are more important in their pricing decisions.

   (2) Operating Expenses

   Rent or mortgage payments
   Taxes--on business location, if owned.
   Salaries--includes the employer's share of social security, unemployment insurance, and workmen's compensation. Also includes fringe benefits such as paid holidays and vacation, sick leave, pension plan, incentives or bonuses, and medical, life and/or disability insurance.
   Advertising
   Utilities--heat, electricity, water, telephone
   Services--delivery, credit, parking, gift wrap, alterations.

Maintenance--repairs, cleaning, repainting of store, shop, or office and of equipment.

Depreciation of equipment

Bad accounts and collection expenses--the owner either has to absorb the cost of a bad check or unpaid account, or pay a lawyer or collection agency to obtain payment.

Insurance--on the building, if owned; on the merchandise.

Returns--include cost of processing the return and refund or credit, as well as the depreciation of the merchandise returned.

Interest on money borrowed--the owner borrows money initially to start the business, and later to meet unexpected expenses or to expand the business.

Stationery and supplies--includes bags, other wrapping materials, price stickers or tickets, business forms, correspondence supplies.

Theft, spoilage, breakage--the owner has to take into account losses due to these factors

Travel--such as buying trips for retailers, for service businesses, entrepreneurs consider the expenses of traveling to the job or on the job.

Donations--to community projects or charities.

Communications--includes telephone, telegram, cable expenses, and correspondence

Discounts--to employees, senior citizens, students, preferred customers

Professional services--such as lawyers, accountants, credit bureaus.

(3) Competition: customers will not accept higher prices unless extra services are offered. Extra services could include free delivery or gift wrap, assistance from salespeople, or a liberal return policy. A small businessperson who can provide a product or service earlier or better than a competitor has an edge.

(4) Volume: A small business owner may be able to offer lower prices if he or she anticipates a greater sales volume. A caterer, for example, may be able to offer lower prices if he or she is assured of a catering job every day. A merchant may lower prices on a particular item if it seems that he or she can sell more items at the lower price. Sometimes, however, the expense of selling more items (storage, salespeople, returns) may outweight the projected profit.

(5) Value: Seasonal items, fad items, unusual and imported items bear higher prices because of their higher value, or desirability to customers.

(6) Supply and demand: Customers are willing to pay more for items or services that are limited in availability, and less for items or services that are easily available.

(7) Image: A business' basic pricing policy should reflect the image it is trying to create. For example, a steak house which wants to create an elegant and expensive image would not charge the same prices for its food that a steak house catering to families would. The elegant steak house should also, fo course, serve higher quality meat.

(8) Profit goal: A small businessperson calculates how much money he or she needs to make to cover the expenses of doing business and to earn a reasonable salary. Some entrepreneurs calculate their salaries as part of the business expenses.

(9) Inflation and increased overhead: The cost of doing business rises periodically and predictably. Because customers resent and mistrust frequent price changes, the business owner must anticipate increased expenses and set prices that will cover those changes.

(10) "Passing through" or "absorbing" rising costs: Estimating the cost in the future to replace inventory must be a part of every pricing decision. When costs suddenly rise, the businessperson must consider the effects on volume of sales and customer loyalty of "passing through" higher costs to the consumer. It may be better policy in the long run to give up some or all the profits on an item by "absorbing" the higher costs while keeping prices stable.

(11) Future markdowns: A retailer who deals in merchandise that is seasonal, or short-lived in terms of desirability (such as high fashion clothing) needs to anticipate markdowns if that merchandise doesn't sell. Therefore, he or she sets prices high enough so that eventual markdowns will not cause a loss.

(12) Legal constraints: Federal, state, and local laws restrict pricing on some goods. The federal laws prevent deceptive pricing and pricing that limits competition within a given market. State laws, called fair-trade laws or unfair sales practice laws, specify prices below which a retailer may not sell a product. Local laws, when they exist, reinforce or strengthen state or federal laws. Additionally, in times of national emergency or national distress, i.e., inflation, the federal government may legislate wage and price freezes in an attempt to stabilize the economy.

(13) Estimates: In many service businesses an estimate of the final price for the work to be done can be offered to the customer. The businessperson may guarantee that the service will cost no more, or that the estimate is correct within a certain percentage. It must also be decided whether to charge for making the estimate, which in itself can be time-consuming. Whatever the policy, it must be adhered to rididly, to preserve the business' reputation for honesty and integrity.

7. Ask students to ask their advisors how their pricing policies are affected by the twelve pricing factors, since different types of businesses are affected differently by the factors. Instruct students to have their advisors rank the pricing factors in order of importance for their particular businesses. Ask students to present the results in class. Discuss the variations that occur.

WORKSHEET

PRICING THE JAM

Let's assume that you are in charge of selling homemade jam at a neighborhood street dance to raise funds for a local day care center.

The cost of the ingredients for each 8 ounce jar of jam totals $.40 ($.31 for strawberries and $.09 for sugar per jar).

The cost of the canning jar in which the jam is packaged is $.27 per jar.

The jam was actually made by a small catering firm which paid two employees $3.00 per hour. Each employee worked two hours to produce the 100 jars of jam to be sold in your booth.

Because the jam will be sold by volunteers, no wages need to be paid to sales people at the booth. Expenses for delivering the jam to the booth, however, total $5.00 for the taxi cab that carried the boxed jars from the catering firm to the fair grounds.

Another booth at the street dance is also selling 8 ounce jars of strawberry jam for $1.25 each.

Questions

1. What is the cost for the jam ingredients and jars?
2. List all the expenses incurred in the production and delivery of the jam.
3. What is the total cost of all the jars of jam?
4. Assuming that you sell all 100 jars, what is the minimum that you can charge for each jar of jam and still make a profit?
5. Considering the competition's $1.25 price, what leeway do you have in setting a price for your jam?
6. Assuming that you sell only 80 jars of jam, what is the minimum price you can charge and still show a profit?
7. If you sell all 100 jars at $1.00, what will your profit be?
8. If you sell all 100 jars at $1.15, what will your profit be?
9. Do you think that the $.15 difference in price will affect the number of sales that you make? Is the greater profit from the higher price worth the risk that you won't sell as many? Which price would you choose and why?
10. What factors besides price might influence the number of jars of jam you sell?

WORKSHEET

SPENDING DECISIONS

A. Three service stations in your town are selling the same nationally-known brand of premium gasoline, but at different prices. One service station, located at a busy intersection, sells premium gasoline for 71.9¢ per gallon. Another, a self-service station, sells the same kind of gasoline for 67.9¢. The third station is located near the entrance to a tool road and sells premium gasoline for 73.9¢. Where will you buy your gasoline and why?

B. You want to purchase a particular brand name digital wrist watch as a gift for a special friend. You know that a local discount store sells the watch at a low price. You also know that the watch is available at a prestigious local gift shop, as well as at several department stores. Where will you buy the watch and why?

C. You take your lunch to work with you every day because you can save money by doing so. You can also be assured of a well balanced lunch if you plan it and pack it yourself. You read in the newspaper this week that an early frost in Florida would cause prices of Florida citrus fruit to rise. In planning your grocery shopping this week you've noticed from supermarket ads in the newspaper that oranges and grapefruit have, in fact, risen in price. How will this affect your brown bag lunches?

D. A large oak tree in your yard was damaged in a recent storm. You'd like to have the tree taken down and cut into firewood. One tree removal service has estimated the job at $150, but cannot do it for another week. Three neighborhood teenagers have offered to do it immeidately if you will provide the equipment. They will charge $50. Who will take down the tree?

INFORMATION SHEET

PRICING FACTORS

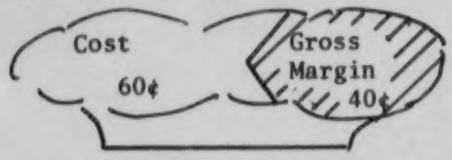
Advisor's Ranking	
	1. Cost
	2. Operating Expenses
	rent
	salaries
	advertising
	utilities
	services
	maintenance
	depreciation of equipment
	bad accounts and collection expenses
	insurance
	returns
	interest on money borrowed
	stationery and supplies
	theft, spoilage, breakage
	travel
	donations
	communications
	discounts
	professional services
	3. Competition
	4. Volume
	5. Value
	6. Supply and demand
	7. Image
	8. Profit goal
	9. Inflation and increased overhead
	10. Future markdowns
	11. Legal constraints

PART B: PRICING POLICIES

1. Explain to students that in spite of the many factors that affect pricing, and in spite of the frequency with which these factors change, customers expect prices to remain consistent. Because customers resent frequent price changes, businesspeople must anticipate the variables in the cost of doing business. A retailer will usually change the quality or quantity of a product before changing the price. For example, if a certain reatiler usually carries men's shirts priced at $7.99, and the supplier increases the cost of that shirt, the reatiler might decide to carry a shirt of lower quality and sell it at the same price ($7.99) to avoid raising the price. Similarly, a merchant who usually sells a one-pound bag of jellybeans for 79¢ might pass along his increased cost by charging 79¢ for a 12 oz. bag of jellybeans.

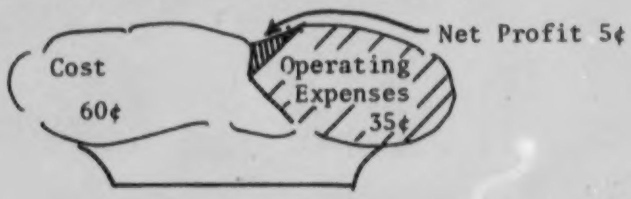
2. Explain to students that the most common pricing strategy used by entrepreneurs is called "gross margin pricing." The gross margin is the amount or markup an entrepreneur adds to the cost of the merchandise or service.

3. Draw this illustration on the board:



4. As an example of gross margin pricing, use the drawing of the pie that a grocery store owner purchases from a baker for 60¢. He sells the pie for $1.00. The difference, 40¢, is the gross margin. Another term for gross margin is gross profit. This is not, however, a clear profit to the owner: out of the gross profit margin come all of the operating expenses.

5. Revise the pie illustration to look like this:



6. Explain that the grocery store owner who sells a pie for $1.00 figures his clear profit, or net profit, by subtracting the cost plus the operating expenses from the selling price. In this case the net profit is 5¢.

7. Look again at the worksheet, "Pricing the Jam," and ask these questions:

   a. If you sell all 100 jars at $1.00, what will your gross profit be? Answer: $28.00
      Gross profit = Sales minus cost and delivery

   b. If you sell all 100 jars at $1.00, what will your net profit be?
      Answer: $16.00
      Net profit = Sales minus cost, delivery, and expenses

   c. If you sell all 100 jars at $1.15 what will your gross profit be? Answer: $43.00

   d. If you sell all 100 jars at $1.15 what will your net profit be?
      Answer: $31.00

8. Explain that the gross margin is usually expressed as a percentage rather than a dollar amount. That percentage is usually based on the selling price rather than the cost. Thus, the gross margin in the pie example is 40%. (If figured on a cost basis it would be 66 2/3%.)

$$\text{Gross margin} = \frac{\text{markup (40¢)}}{\text{selling price (\$1.00)}} = 40\%$$

9. Using the "Pricing the Jam" worksheet again, ask these questions:

   a. If you sell all 100 jars at $1.00, what will your gross margin (expressed as a percentage) be?

      Answer: $\frac{\$ .28}{\$1.00} = 28\%$

   b. If you sell all 100 jars at $1.15, what will your gross margin (as a percentage) be?

      Answer: $\frac{\$ .43}{\$1.15} = 37\%$

10. For further practice in calculating gross margin, use the following exercises:

    Calculate the markups or prices in each of the exercises below.

	Answers:
1. Cost $6; markup, $3. Find (a) retail price and (b) markup percentage.	1. (a) $9 (b) 33 1/3%
2. Retail, $15; markup, $6. Find (a) cost and (b) markup percentage.	2. (a) $9 (b) 40%
3. Cost, $3.50; retail, $7. Find (a) markup in dollars and (b) markup percentage.	3. (a) $3.50 (b) 50%

11. Explain to students that gross margin percentages vary with the nature of the merchandise and the type of store. Following are some common gross margin percentages:

Specialty goods - 50% or more
Appliances (standard goods) - 25%
Grocery - 20%
Gourmet - 50% or more
Perishable Foods - 35%

12. Write the above information on the board and ask students to suggest reasons for each of the above gross margin percentages. Possible responses:

Specialty goods -- high demand or high value
Appliances -- heavy competition
Grocery -- heavy competition
Gourmet -- image, high demand, high value
Perishable -- expenses include spoilage, special handling.

13. Explain that entrepreneurs usually do not apply the same margin on all items. They also do not use the same margin at all times. Instead, they attempt to achieve an average planned markup on the total of their sales. Thus, the owner of a convenience food store might set a 25% margin on such items as milk and crackers, and a 75% margin on such items as bottled artichoke hearts and Greek olives. The average planned markup is thus 50%.

14. List the following items on the board and ask students to predict whether the markup would be high, medium, or low, and reasons for their predictions. Suggested answers are provided but students may be able to point out reasons for different answers.

Item	Markup	Reasons for degree of markup
Sofa	high	storage and display space, low volume
Wall hanging	variable	specialty item
Swim suit	high	seasonal
Photo copies	low	competition
Star Wars T Shirts	high	short-lived appeal
Fresh spinach	medium	competition, spoilage
Jockey shorts	medium	competition, standard item
Apples	low	competition
Cosmetics	variable	image (prestige vs. store brand)
House plants	variable	high demand, special handling

Ask students to suggest other items to add to the list and discuss the markup on these items in the same manner. As a review, ask students to classify these items according to the categories presented in Unit IV.

15. Discuss the practice of charging above-normal prices in high demand circumstances. Ask students whether they have ever purchased fad items and what those items were (Pet Rocks, Star Wars T-Shirts). Ask students to estimate the cost to the businessperson of each fad item they bought and to figure the gross margin profit in a percentage on each item. Tell them that this practice is called "skimming the market."

    The opposite of skimming the market is called "penetration pricing," or setting one's prices abnormally low to become established in a market. Penetration pricing will be discussed later in this section, together with other markdown practices.

16. Introduce to students the other common pricing strategy used by small businesspeople--manufacturer's suggested price. This is a simplified approach to pricing used by many entrepreneurs. Ask students for examples of items they have purchased at the manufacturer's suggested price. Probably the only way they can know that they paid the manufacturer's suggested price is the way the price is marked on the packaging or the display--i.e., greeting cards, gift wrap, magazines, books, felt-tipped pens. Uniform pricing of this kind is part of the necessary practice among small businesses of remaining competitive with larger stores offering the same merchandise.

17. Discuss psychological pricing with students. This is the practice of pricing an item so that the price has a psychological appeal. Items priced at 99¢ rather than $1.00 are examples of psychological pricing. Multiple pricing, e.g., items priced at 3/$1.00, is also psychological pricing.

    Ironically, sometimes raising prices has a psychological appeal. For example, the owner of a fabric store may be able to purchase a designer fabric from a supplier at a special price, and try to pass the savings along to the customers. But the customers, who are used to paying a high price for the fabric, would be suspicious of a lower than normal price. They might suspect that the yard goods were seconds or damaged in some way. By raising the price or maintaining the usual high price, the fabric store owner is able to sell the stock more quickly.

18. In service industries pricing is much more closely related to the time used in performing the service than to any materials used. Because labor costs constitute a great part of the operating costs of a service business, it is essential to know how long a given repair, delivery or other service will take before establishing prices.

19. Point out to students that so far the discussion on pricing has been concerned with markup. Entrepreneurs also have to know when it's appropriate to mark down an item. Ask students for examples of markdowns that have convinced them to (a) buy something for which they might not have wanted to pay the original price, or (b) shop in a store they usually did not patronize. Ask students if they can name local businesses that regularly have these markdown practices:

Sales

- grand opening sales
- pre-season sales
- end-of-season sales
- special sales
- bulk item sales
- special purchase sales
- clearance sales
- promotional sales
- special occasion sales

Leaders

one item or a small number of items in a store sold at an unusually low price

Premiums

gifts, coupons, trading stamps

19. Write the categories on the board and discuss them.

Sales

- Grand opening sales. To attract customers to a new store or service, the owner will offer low prices on a few items. For example, a new telephone answering service may offer the first month of service free to customers who contract for six months service.

- Pre-season sales. To get an initial jump on the upcoming demand for seasonal items, business owners will hold pre-season sales. For example, a hardware store will discount prices on garden tools and outdoor building supplies during the winter thaw. A home decorating service may offer a spring redecorating sale.

- End-of-season sales. Seasonal sales are held at the end of a season (spring-summer, fall-winter) to turn the remaining stock back into cash to purchase more timely goods and to make room for the new goods as they arise. Clothing stores regularly hold end-of-season sales.

- Special sales. Incentives from the supplier can be the basis of a special sale. For example, a fish market can run a special sale on fresh flounder because an increased catch the day before resulted in an unusually low wholesale price to the owner of the market.

- Bulk item or special purchase sales. A businessperson might want to take advantage of an opportunity to purchase an item in a large quantity (and thus at a low price per unit) without having enough storage space for it all. He or she thus runs a bulk item (or "truckload") sale to sell the item quickly. For example, an auto parts store may have ordered a truckload of car-top racks because they were available at 60 percent of the usual wholesale price. Not having enough storeroom space for all the racks, the owner stacks them on the showroom floor and sells them at a greatly reduced price.

- Clearance sales. If some merchandise is selling too slowly, it takes up floor or shelf space that would be more profitably used for newer, faster-moving merchandise. The owner will cut prices in order to make room for the new merchandise, and to generate the cash needed to buy it. For example, a ceramic tile distributor will give a 50 percent discount on certain types of tile to speed up sales, and will then order other types to replace them that sell more quickly. Some stores hold regular clearance sales, such as end-of-month clearance sales.

- Promotional sales. If a business owner wants to introduce a new service or item, he or she may run a promotional sale to encourage customer acceptance of the product or service. For example, the owner of a shoe store receives a new style of sneaker and sells it at close to cost until the style "catches on." Once the sneaker is selling well, the businessperson knows that the lower price is no longer necessary and can therefore raise it to a more profitable level.

- Another type of promotional sale occurs when a business lowers the prices of certain items on days when sales have traditionally been low. For example, the owner of a dry cleaning business notices that there are generally fewer customers on Mondays and Tuesdays; he or she therefore discounts prices on these days to try to counteract the trend.

- Special occasion sales. Retailers take advantage of holidays to attract customers. A jeweler, for example, might offer heart-shaped jewelry on sale before Valentine's Day. Traditionally heavy shopping days are the Friday after Thanksgiving, Washington's Birthday, and the last days before Christmas.

Leaders

Items priced below their most profitable point or below the average markup are called leaders. For example, a photographer may offer an 8x10 color portrait usually priced at $15.99 and costing him $5 to produce at $7.99. "Loss leaders" are items selling at less than cost. Using the previous example, the photographer may offer the 8x10 color portrait for $3.99. Leaders are used to attract customers to additional merchandise or services at regular, more profitable prices. The photographer in this example hopes to sell additional copies or other sizes of the same portrait at his regular prices. Loss leaders are most used when the business person wants to clear old merchandise and accumulate cash.

Premiums

Gifts, coupons, and trading stamps are commonly used premiums that attract customers. A bank, for example, might offer an electric alarm clock free to customers who open new accounts for $1,000 or more, or who deposit $1,000 or more in existing accounts.

20. Add to this list of categories the term "penetration pricing." This is the practice of pricing below the normal market price. Penetration pricing is used by new businesses to get established. Once they are secure they can raise their prices to a normal level. Ask students for examples of penetration pricing.

PART C: BREAK-EVEN ANALYSIS

1. Explain that it is common practice to determine pricing strategies through "break-even" analysis. The term "break-even" means a level of operations at which a business neither makes a profit nor suffers a loss. At this point, the business' revenue is exactly enough to cover its expenses. At the break-even point, the business costs and the revenue earned are all perfectly balanced.

2. Explain that break-even analysis is intended to help the business owner or manager determine how much he or she must charge for a product, how many units of the product must be sold, and what level of fixed and variable business expenses can occur so that the enterprise will break even.

3. Point out and write on the board the three basic and distinct aspects of a break-even analysis.

   - Units, or number of products sold
   - Dollar amounts generated by sales, or price of each product unit sold
   - Level of variable business expenses

   Explain that "units, or number of products sold" refers to the volume of business necessary for a business to break even, given a known product price and a known level of business expenses. "Dollar amounts generated by sales, or price of each product unit sold" refers to the price that must be charged for each product unit, given a known volume of sales and known level of business expenses. "Level of variable business expenses" refers to the total of variable expenses that can be sustained to break even, when given a known product price, a known set of fixed expenses, and a known volume of sales.

4. Explain that the break-even point of an enterprise may be calculated for volume, sales and expenses* by means of two fairly simple mathematical formulas.

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* The "expenses" aspect will not be discussed in this course, as its purposes are broad and complex. Students seeking more information on determining levels of variable expenses should enroll in a business accounting course or read further on the subject.

5. Discuss and write on the board the break-even point formula for determining the number of units that must be sold for a business to break even.

$$\text{Units to be sold} = \frac{\text{Fixed expenses}}{\text{Unit sales price minus (-) unit variable expenses}}$$

Units to be sold = product or service units
Fixed expenses = ongoing and invariable expenses of the business (e.g., electricity, rent , etc.)
Unit sales price = the price that each product or service is sold for
Unit variable expenses = cost of sales personnel, promotion, display, etc..

6. Repeat that this formula will assist the businessperson in determining how many units will have to be sold for the business to break even.

7. Write on the board and lead the class through a calculation of a unit break even point.

$$\text{Units to be sold} = \frac{\text{\$400,000 (fixed expenses)}}{\text{\$20 (unit sales price) - \$12 (variable expenses)}}$$

$$\text{Answer: } \frac{\$400{,}000}{\$20 - \$12} = \frac{\$400{,}000}{\$8} = \text{50,000 units}$$

8. For more practice, calculate the following problem on the board with the entire class.

$$\text{Units to be sold} = \frac{\text{\$500,000 (fixed expenses)}}{\text{\$1,300 (unit sales price) - \$800 (variable expenses)}}$$

$$\text{Answer: } \frac{\$500{,}000}{\$1{,}300 - 800} = \frac{\$500{,}000}{500} = \text{1,000 units}$$

9. Discuss and write on the board the break-even point formula for determining the correct price for each unit that is to be sold. Explain that the formula for determining price is modified from the unit break-even formula.

$$\text{Selling price per unit} = \frac{\text{Fixed expenses plus (+) Variable expenses}}{\text{Units to be sold}}$$

$$\text{Answer: Selling price Per unit} = \frac{\text{\$40 (fixed expenses) + \$30 (variable expenses)}}{\text{100 Units to be sold}}$$

$$= \frac{\$70}{100} = \text{\$.70 per unit}$$

10. For more practice or additional clarification, calculate the following problem on the board.

$$\text{Selling price per unit} = \frac{\$420 \text{ (fixed expenses)} + \$26 \text{ (variable expenses)}}{10 \text{ Units to be sold}}$$

$$= \frac{\$446}{10} = \$44.60 \text{ per unit}$$

11. Emphasize the fact that the small businessperson uses break-even strategies to estimate the volume of sales and continues to use them throughout the life of the business to determine whether pricing strategies are appropriate, given the volume of real sales. Break-even points are particularly useful when a small business decides to expand.

12. Explain to the class that the entrepreneur may see that for any of several reasons, e.g., competition, low demand, he or she may not be able to sell a product above the break-even price, or even at it. The pricing decision for that product should be made with these considerations in mind, but the break-even analysis is to be made for the entire business. A loss in one item may be balanced by a profit on another.

13. Sometimes the businessperson may choose to establish a minimum profit that he or she needs to make in order to cover personal living expenses (i.e., food, clothing, rent, entertainment, etc.) This fixed profit is then included as part of the fixed expenses of the business in the break-even analysis formulas, and calculations are performed exactly as before.

    Example from #7 above:

$$\text{Units to be sold} = \frac{400{,}000 + 20{,}000 \text{ profit} = \text{(fixed expenses)}}{\$20 \text{ (unit sale price)} - \$12 \text{ (variable expenses)}}$$

$$\frac{\$420{,}000}{\$20 - 12} = \frac{420{,}000}{8} = 52{,}500 \text{ units}$$

    Of course, most businesses sell more than one type of product; the fixed profit is thus added to the total fixed expenses before it is prorated for each product line or unit.

    Example from #9 above:

$$\text{Selling price} = \frac{\$24.00 \text{ (fixed expenses)} + \$30 \text{ (variable expenses)}}{100 \text{ units to be sold}}$$

$$= \frac{\$72.00}{100} = \$.72 \text{ per unit}$$

14. List the advantages of analyzing the break-even points for product sales of a small business: the analysis allows the entrepreneur to take an aggregate look at information concerning.

- Selling prices;
- Expenses;
- Volume; and
- Product mix.

It permits a revenue and expense projection (under assumed conditions); it allows for determination of realistic selling prices; it is useful in determining plant expansion feasibility and other capital investments.

15. Ask the class for other examples of other uses for break-even points. Some suggested answers are:

    a. In planning the size of a special product sale

    b. In placing orders for new products

    c. In determining the reduction in price allowable for an annual clearance sale, etc.

    d. In adjusting prices when fixed or variable business expenses change.

16. Ask the class to identify the type of break-even point formula required for each purpose.

    Answers for #14:

    a. Units to be sold

    b. Units to be sold

    c. Selling price per unit

    d. Selling price per unit

17. Distribute the "Break-Even Point" Worksheet. Tell the students that they may use this sheet as a practice exercise in computing break-even points for pricing and sales volume.

    Answers:

    A. 100,000 units

    B. 125,000 units

    C. 10,000 units

    D. 3,333 units

    E. $.55

    F. $11.48

    G. $1.00

    H. $3.00

WORKSHEET

BREAK-EVEN POINTS

Units to be sold:

A.
Fixed Expenses = $50,000
Unit Sales Price = $1.00
Unit Variable Expenses = $.50

B.
Fixed Expenses = $50,000
Unit Sales Price = $1.00
Unit Variable Expenses = $.60

C.
Fixed Expenses = $10,000
Unit Sales Price = $10
Unit Variable Expenses = $9

D.
Fixed Expenses = $10,000
Unit Sales Price = $12
Unit Variable Expenses = $9

Selling Price:

E.
Fixed Expenses = $35
Variable Expenses = $20
Units to be Sold = 100

F.
Fixed Expenses = $343
Variable Expenses = $231
Units to be Sold = 50

G.
Fixed Expenses = $39
Variable Expenses = $61
Units to be Sold = 100

H.
Fixed Expenses = $65
Variable Expenses = $34
Units to be sold = 33

PART D: IT'S YOUR BUSINESS (VI)

Instruct students to use the project worksheet, "Pricing Factors," to:

1. Rank in order those factors which they anticipate will most significantly affect their own pricing policies.
2. Detail how each factor applies to their own businesses.

PROJECT WORKSHEET

PRICING FACTORS

Student's Ranking	
	1. Cost
	2. Operating Expenses rent salaries advertising utilities services maintenance depreciation of equipment bad accounts and collection expenses insurance returns interest on money borrowed stationery and supplies theft, spoilage, breakage travel donations communications discounts professional services
	3. Competition
	4. Volume
	5. Value
	6. Supply and demand
	7. Image
	8. Profit goal
	9. Inflation and increased overhead
	10. Future markdowns
	11. Legal constraints

UNIT VII: BUSINESS POLICIES AND RELATIONSHIPS

SUMMARY: The success of a small business depends in part upon the relationships and policies established between the owner and his or her customers, employees, and suppliers.

STUDENT LEARNING OBJECTIVES:

- Identify policies commonly established in small businesses.
- Identify methods of personnel recruitment.
- Develop realistic customer policies for case study.
- Suggest constructive solutions to simulated employer/employee conflicts.

STUDENT PROJECT WORK:

- Develop specific policies for students' projected small businesses.
- Research and select potential vendors for projected businesses.
- Create job descriptions and "Help Wanted" advertisements to use in projected businesses.

TEACHING STRATEGIES:

Part A: Introduction: lecture, discussion

Part B: Customers: board exercise, small group exercise, discussion, information sheet, project

Part C: Personnel: board exercise, small group exercise, role plays, discussion, project

Part D: Vendors: board exercise, discussion, lecture, project

MATERIALS PREPARATION:

Part A: No preparation

Part B: Duplicate one per group:

"Policy Problem: Delivery"
"Policy Problem: Credit"
"Policy Problem: Estimates"
"Policy Problem: Special Orders"

Duplicate:

"Ten Golden Rules for Better Business"
"It's Your Business (VII) PROJECT REPORT: Customer Policies

Part C: Duplicate one per group: "Employer Checklist," "Employee Checklist"

Duplicate the role play, "Denver Judo Academy," with half the students in the class receiving a copy of "Peter Hagiwara" and the other half receiving "Fran Murphy."

Duplicate the role play, "Security Fence Company," with half the students in the class receiving a copy of "Jack Ludwig" and the other half receiving "Max Scholl."

Duplicate "It's Your Business (VII): PROJECT REPORT Personnel Policies."

Part D: Duplicate "It's Your Business (VII): PROJECT REPORT Vendor Policies."

MINI-PROBLEMS:

Women and Minority Entrepreneurs:

8. "Sara Greenfield." Sara Greenfield receives a paternalistic hearing from a potential customer who wants to examine her finances before he places a large order.

Other Mini-Problems:

18. "Steve Foster." Students calculate Steve's take-home pay after deductions, based on information in a word problem.

29. "Checklist Exercise." Students rate a list of characteristics, some of which are considered to be essential traits of successful businesspeople, first in the abstract and then in personal terms.

32. "Just for Fun" Students brainstorm for methods of estimating the height of a tall building without using surveying equipment.

34. "Employee Turnover." Putting themselves in the place of a gas station owener with a problem of high employee turnover, students decide what they would do about it."

35. "Relatives." Students resolve a dilemma in which the owner of a diaper service is asked to hire her nephew as the driver of a new delivery van, in spite of his record of traffic violations.

REFERENCES:

Broom, H. N. and Justin G. Longenecker, Small Business Management, Cincinnati, Ohio: South-Western Publishing Co., 1975.

_________, Personnel Management Guides for Small Business, SBA Small Business Management Series, No. 26, Stock No. 045-000-00126-1, Washington, D.C.

PART A: INTRODUCTION

1. Point out that the nature of small business demands that people be in contact with one another frequently. If the business is to succeed, the relationships between the owner and the people he or she deals with must be satisfying and pleasant to all involved.

2. Explain that these relationships can be seen as having legal, formal, and informal aspects. An example of a legal aspect is that an employer may not discriminate in hiring on the basis of race, sex, color or creed. An example of a formal aspect is a customer policy established by the owner, such as a refund policy. Informal aspects of business relationships range from the temperament of the owner to the owner's philosophy of human relations.

3. Explain that the owner's philosophy of human relations is apparent in the way he or she deals with employees, customers, and suppliers. In his or her relationships with others, the owner provides a model for the way his or her employees should treat customers. Employees cannot create a positive atmosphere for customers unless management provides a positive atmosphere for employees.

4. To illustrate this point, lead a class discussion using the questions:

   - How much of an influence does a teacher, an employer, or a parent have in defining the atmosphere of a situation? Give examples.

   - What would you define as a negative atmosphere in a classroom, family, or work situation?

   - What would you define as a positive atmosphere in the same situations?

   - What personality traits or characteristics in a parent, teacher, or employer would produce a positive atmosphere for family members, students, or employees? (List these on the board.)

   - What class or work situations have you been in where a positive or negative atmosphere affected your comfort or performance? How did you react?

5. Remind students that to vendors, employees, and customers, the owner "is" the business and as such is in a natural position of authority. The owner can use his or her authority for constructive purposes or can abuse it.

   Ask students to provide contrasting examples of ways that entrepreneurs can abuse their authority with vendors, employees, and customers, and ways they can use it constructively.

PART B: CUSTOMERS

1. Emphasize that customers are the most important asset in any business. No matter how good the product is, no matter how capable and courteous the employees are, the business cannot exist without customers.

2. Ask students to recall problems they've encountered as customers, and for each problem, suggest a way that problem might have been eliminated or minimized.

3. Solicit from the class and list policies that must be clear to a customer. Be sure the list includes:

   - Credit and terms of payment, forms of payment
   - Return and refund policy
   - Repair and service policy
   - Lay away
   - Delivery
   - Special orders and customer work
   - Estimates
   - Contracts for service
   - Guarantees

   Save this policy list for an activity in Part D.

4. Explain that even when policies exist and are clearly communicated to customers, some businesses attract more customers than others because the policies are more liberal or more favorable. Such policies, however, can be costly. An entrepreneur has to weigh carefully the costs and benefits of such policies. Benefits are usually clear, but costs--in money, time, and effort--may be more difficult to see.

5. Divide the class into four groups. Distribute to each group a policy problem sheet. Ask each group to work together to formulate a policy which solves the problem.

6. Ask each group in turn to read its policy problem to the class, and to report on the policy it has proposed. The report should include advantages and disadvantages of the policy.

7. After each group reports, ask the class to think about the policy and comment on the costs and benefits it would entail.

8. Explain to students that aside from customer policies, there are ethical issues an entrepreneur must deal with. To illustrate these ethical issues distribute to each student a copy of "Ten Golden Rules for Better Business." In going over the rules, ask students for examples of violations they may know about or have heard about. Point out that the Golden Rules deal basically with honesty. Ask students if they would add rules to the list. If so, what would they add?

9. PROJECT REPORT Distribute copies of "It's Your Business (VII): Customer Policies" to students and ask them to apply their knowledge of a small business owner's relations with customers by developing policies they might carry out in their businesses. Students should develop a minimum of three policies from the list in point #3. For each policy, students will determine the cost and resulting effect on the pricing of merchandise or services.

POLICY PROBLEM: DELIVERY

You have just opened a dry cleaning establishment in an urban neighborhood of apartment buildings, condominiums, and multiple-family homes. The population of the neighborhood is well mixed in age. Since many of the residents do not have cars, customers would rely on you for their dry cleaning if you were to deliver their orders. Decide whether you will deliver and, if so, establish a policy for delivery. Consider such factors as a delivery charge, a minimum order, damage, your staffing, accessibility of customers' residences.

As an aid in making your decision, weigh the advantages and disadvantages of the policy and whatever other factors would enter into your decision.

POLICY PROBLEM: CREDIT

You've been operating a small stationery supply store. Most of your customers pay cash. You have informal credit arrangements with a few of your regular customers. You've just learned that a new office building will open near your store. Several of the firms in that building will need stationery supplies. Employees in these firms will probably do some personal shopping in your store. Establish a credit policy that will attract this business. Include terms of payment, interest charges, check cashing, methods of billing, use of major credit cards.

As an aid in making your decision, weigh the advantages and the disadvantages of the policy and whatever other factors would enter into your decision.

POLICY PROBLEM: ESTIMATES

You have just set up a repair shop for small electrical appliances. Devise a policy for estimating the cost of repairs. Consider whether you will charge for estimates. If so, how much?--a flat rate, a charge based upon how long it takes you to diagnose the trouble? Will the estimate charge be applied to the total cost if the customer decides to have the item repaired?

As an aid in making your decision, weigh the advantages and the disadvantages of the policy and whatever other factors would enter into your decision.

POLICY PROBLEM: SPECIAL ORDERS

You're a craftsperson who has been successfully operating on outlet for your products and for the products of other craftspeople: pottery, clothing, furniture, art, toys and jewelry. Impressed with the quality of your products, several customers have asked for special orders. Your suppliers are willing to fill special orders if you will guarantee payment and establish a policy. Devise the policy.

As an aid in making your decision, weigh the advantages and the disadvantages of the policy and whatever other factors would enter into your decision.

TEN GOLDEN RULES
FOR BETTER BUSINESS*

1. Serve the public with honest values.

2. Tell the truth about what is offered.

3. Tell the truth in a forthright manner so it will be understood by the trusting as well as the analytical.

4. Tell customers what they want to know--what they have a right to know and ought to know about what is offered so that they may buy wisely and obtain maximum satisfaction from purchases.

5. Be prepared and willing to make good as promised and without quibble on any guarantee offered.

6. Be sure that the normal use of merchandise or services offered will not be hazardous to public health or life.

7. Reveal facts which consumers need to know to purchase wisely.

8. Advertise and sell merchandise or service on its merits and refrain from attacking your competitors or reflecting unfairly upon their products, services, or methods of doing business.

9. If testimonials are used, use only those of competent witnesses who are sincere and honest.

10. Avoid all tricky devices and schemes such as deceitful trade-in allowances, fictitious list prices, false and exaggerated comparative prices, bait advertising, misleading free offers, fake sales and similar practices which take advantage of human ignorance and gullibility.

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* Adapted from the Better Business Bureau standards of fair practice to which merchants are expected to conform.

IT'S YOUR BUSINESS (VII)

PROJECT REPORT

CUSTOMER POLICIES

Directions:

Apply your knowledge of a small business owner's relations with customers by developing policies you would carry out in your business. Develop a minimum of three policies from the following list. For each policy, determine the cost in money, time, and/or effort and resultant impact on the operation of the business.

- Credit and terms of payment
- Return and refund
- Repair and service
- Lay away
- Guarantees
- Delivery
- Special orders
- Estimates
- Contracts for service

Policy	Cost	Impact of Policy on Operation of Business

PART C: PERSONNEL

1. Elicit from students the kinds of employees a small business owner or manager might need to hire.

   Initially, the small business may employ only members of the owner's or manager's family to reduce the cost of salaries and related employee expenses (such as insurance or vacations). The small business owner often employs only part-time help, rather than full-time, in the early days of the business. However, as the volume of business grows, the owner may need additional help. At first, an employee could be added to assist with all the tasks required by the business. As the business expands, several people might be hired to provide the special skills (such as bookkeeping or secretarial work) needed to run the business.

2. Discuss personnel recruitment by asking students how they themselves have obtained jobs. List these responses on the board. If the list does not include such sources as employment agencies, referrals by friends, the state division of employment security, and referrals by vocational, technical, or business schools they have attended, add these sources.

3. Divide the class into two groups. Give the Employer Checklist to one group and the Employee Checklist to the other. Ask the students to work together as a group to fill in the checklists, discussing each item they list. The checklists do not specify the job or the nature of the business. Students should approach the exercise from the point of view of employer/employee relations in general.

4. Reconvene the class. Ask each group to read the directions on its checklist and to report the topics listed. On the board, make master lists of:

   A. Things an employer needs to know about job candidates (Column I on each list.) Be sure the list includes such items as:

      - his or her qualifications, including jobs and courses taken at school which are relevant to this job.

      - an explanation of why the applicant would like this specific job.

      - the future plans of the applicant (What are the applicant's career goals? Does he or she plan to work at this job for at least a year? Is the applicant going to return to school soon? etc.)

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- references who are able to verify the applicant's qualifications and vouch for his or her reliability.

B. Policies an employer should be prepared to explain to job candidates (column II on each list). Be sure the list includes such items as:

- the job description (tasks and responsibilities)
- any personal characteristics that are required for the job.
- the salary presently being offered, the top salary available (in the future), and the criteria for salary raises;
- working hours;
- fringe benefits;
- any tools or uniforms that the employee must furnish;
- opportunities for advancement in the business;
- the job environment (counter work, warehouse area, kitchen, sales floor, etc.);
- training that will be provided;
- job security (may depend on success of business, growing season, holiday season, etc.);
- lines of responsibility (who will directly supervise the employee; whom the employee will supervise, if anyone).

5. Ask students to identify the items which are common to both lists, and which items appear on only one list.

6. Ask the class why some items appear on only one list. Do employers and employees see the job differently? Why?

7. Elaborate on fringe benefits and reasons why an employer might provide such benefits (i.e., to attract job applicants and to build company loyalty among existing employees). Examples of fringe benefits are:

- paid holidays and vacation;
- sick leave;
- pension plan;
- medical, life, and disability insurance;
- a company savings or investment plan;
- an employee discount in purchasing the company's product or service;
- profit sharing;
- incentives or bonuses.

8. Point out that the employer has a number of responsibilities to the employees he or she hires, whether they are full-time or part-time. Write on the board and discuss the legal requirements that an employer must fulfill.

   a. According to the law, the employer must make specific tax deductions from the employee's pay. These are for:

      - Social Security: for the exact percentage of the employee's pay, contact the local Social Security Administration Office.

      - Federal Withholding Tax: for the exact percentage of the employee's pay, contact the Internal Revenue Service.

      - State Withholding Tax: for the exact percentage of the employee's pay, contact the state income tax division.

   b. Explain that each employee will cost the business more than his or her total salary. The law requires that the employer pay certain costs to provide protection for all regular employees. Write on the board and discuss the items that the employer must pay for each of the company's employees:

      - Social Security: the employer must match the employee's contribution dollar for dollar.

      - Unemployment Insurance: the rate varies by state. For the exact amount, contact the state employment security agency.

      - Workmen's Compensation: this is an employer's insurance policy that is designed to cover any employee injuries sustained in the course of work, regardless of fault. The insurance is now required by all states. For information contact the state Industrial Accident Board.

9. Explain that the owner of a small business is also legally required to provide safe working conditions for employees. The standards for safety have been set by the U.S. Department of Labor's Occupational Safety and Health Administration (OSHA) and by state laws which vary by state. For specific information, they new entrepreneur should contact the regional Occupational Health and Safety Administration and the state Department of Labor.

10. Emphasize that good employer/employee relationships are critical in maintaining an efficient, hardworking and responsive staff. The employer sets the tone of this relationship by showing fairness to the employees in matters relating to the job. Good management techniques include:

- prompt payment of salaries;
- provision of sufficient instructions or training to enable the employee to carry out the assigned work;
- advance notice of job termination or layoff when the employer finds that there is not enough work for the employee to do, or that diminishing revenues will not permit the employee's salary to continue to be paid;
- keeping the lines of communication open between employer and employee, so that problems can be discussed before they become too serious.

11. Ask the students for additional examples of good management practices.

12. Tell the students that they may obtain information on good management techniques through the Small Business Administration's management division. Explain that the Small Business Administration provides workshops at the regional level to assist entrepreneurs in building or improving their management skills.

13. Tell students that as a demonstration of the importance of employer/employee relations, they will participate in two role plays. The role plays may be done by all students in pairs at the same time, or volunteers can perform them for the class.

14. Distribute "Denver Judo Academy," one role to each student in the pair(s). Ask students to act out the role play of Peter Hagiwara and Fran Murphy, owner and instructor, respectively, of the Denver Judo Academy. Ask students to devise a solution to the problem that is acceptable to both of them if this is possible.

15. Discuss the role play when it has been completed. In the discussion, elicit the fact that knowledge of the specialty (judo) and knowledge of business are both essential to a successful enterprise. A wise employer listens to suggestions for improvement, whether the suggestions come from employees or from others. Also elicit the fact that a good employee is an asset to the business: the employer needs to recognize and use the employee's skills or run the risk of losing him or her.

16. Distribute "Security Fence Co.," one role to each student in the pair(s). Ask students to act out the role play of Jack Ludwig and Max Scholl, owner and employee, respectively, of the Security Fence Co. Ask students to devise a solution to the problem that is acceptable to both of them if this is possible.

17. Discuss the role play when it has been completed. In the discussion, elicit the fact that an employer has an obligation to satisfy his or her employee's work preferences if possible. If this is not possible, it is best for both of them to terminate the employment relationship.

18. **PROJECT REPORT.** Distribute copies of "It's Your Business (VII): Personnel Policies," and ask students to prepare job descriptions and advertisements for employees they will need in their businesses. The job descriptions should include the tasks and responsibilities of the employee, the job environment, the working hours, training, and lines of responsibility. The advertisement should summarize the job description and include qualifications necessary for the job, salary, fringe benefits, and a request for references.

WORKSHEET

EMPLOYER CHECKLIST

You're the owner of a small business. Because of an increased volume of business, you'll need to hire several new employees to fill various roles. To prepare for the interviews you'll conduct, use the columns to make a list of topics you'll need to cover in the interview. Try to anticipate questions the applicants will ask.

I. What you want to know about the job applicants	II. What you want the job applicants to know about the jobs

WORKSHEET

EMPLOYEE CHECKLIST

You are scheduled to interview for a job. To prepare for the interview, use the following columns to make a list of topics you expect will come up in the interview. Try to anticipate questions the employer will ask.

I. What the employer will want to know about you	II. What you will want to know about the job

ROLE PLAY:

Denver Judo Academy -- Peter Hagiwara

You are Peter Hagiwara, owner of the Denver Judo Academy. After doing judo for a number of years as a hobby, you opened your own academy a year ago. As you have won many national judo competitions, you know that there are few people as good as you at judo, and certainly none in Denver.

Four months ago, you hired Fran Murphy as a full-time judo instructor to take over some of the academy's classes. Fran had worked at a judo school in California before coming to Denver, and you have to admit that she is quite good as a judo teacher. However, you are having some serious problems with her, and you are thinking of firing her.

The trouble is that Fran thinks she owns the business. She tries to make all the decisions, tries to set up elaborate new advertising campaigns and tries to introduce discount membership plans for families and groups. Once she even told you that you were teaching a particular technique the wrong way!

You have your ways of running the academy. It's true that they are simple, straightforward ways, but they're yours. After all, you own the business, and it's your money that would be lost if the academy goes under. You're entitled to your way of doing things--especially since the business is doing reasonably well.

You have decided that you can't put up with Fran's arrogance any longer. You are going to tell her she'd better shape up or be fired.

ROLE PLAY:

Denver Judo Academy -- Fran Murphy

You are Fran Murphy, a judo instructor at the Denver Judo Academy. You have been working at the academy for four months, ever since you came to Denver from California, where you had worked at another judo school.

You recognize that your boss, Peter Hagiwara, is really excellent at judo. His physical grace and his accuracy are beautiful to watch, and you have told him so. However, you've had other problems with him that are getting so unpleasant that you're almost ready to look for another job.

The trouble is that Peter knows judo, but he doesn't know business. The only judo academy in the whole city of Denver should have five times as many students as it does! It's no wonder, too. Peter doesn't want to advertise, except for a poster at the local supermarket. He insists on having classes only from 9 to 5 during the week and from 9 to 1 on Saturdays, which means he loses most of the working people as customers. You have proposed advertising campaigns which wouldn't be greatly expensive and have suggested extended hours to get the business of working people, but he's not interested. You know from your old job that family memberships at discount rates bring in a lot of students, but Peter refuses to listen.

It is so frustrating for you to see what should be done to improve the academy and to have your suggestions brushed aside, that you decide to talk it out with Peter. If he ignores what you have to say this time, you'll quit.

ROLE PLAY:

Security Fence Company -- Jack Ludwig

You are Jack Ludwig, owner of the Security Fence Co. Your company manufactures chain link and other metal fences. You have 35 employees, of whom 15 work in the factory making the fences. (The others are fence installers, officer workers, and salespeople.) Max Scholl is one of your factory employees. You hired him only two weeks ago, but you can already see that he's not working out.

Max has come to work late at least four times so far. You assigned your foreman to teach him how to operate the machine that bends the wire into the shape needed for the chain link fences, and the foreman tells you that Max isn't learning very quickly. To tell the truth, the foreman says, Max doesn't seem to care much if he learns to use the machine or not. Sometimes when you come into the factory, you see Max either standing around or distracting the other employees by talking to them.

Earlier this week you gave Max a warning that he'd better get down to work. You see he hasn't, so you're about to fire him.

ROLE PLAY:

Security Fence Company -- Max Scholl

You are Max Scholl, an employee of the Security Fence Company. You work with 14 other people in a factory making chain link and other metal fences. The company employs 35 people in all; the others are fence installers, office workers, and salespeople. You got this job two weeks ago.

Jack Ludwig, your boss, is a lousy person. He's always nagging at you to work harder. For Pete's sake, you need a break sometimes! The machine the foreman has been teaching you, the one that bends the wire for the chain link fences, is so loud it hurts your ears. The metal shavings get in your clothes and under your fingernails. The other workers must be scared to death of Ludwig, though. They stick to their machines as if he were watching them every minute. Maybe he does--you notice he snoops around to see if he can catch people taking a minute off. He's already told you you don't work hard enough.

To tell the truth, you hate this job. It doesn't pay a lot of money, it's dirty and smelly and noisy, the other employees are snobbish, and the boss is a real loser. If Ludwig complains about your work once more, you'll quit.

IT'S YOUR BUSINESS (VII)

PROJECT REPORT

PERSONNEL POLICIES

Directions:

With the help of your advisor, prepare job descriptions and advertisements for employees you will need in your business. Job descriptions should include the tasks and responsibilities of the employee, the job environment, the working hours, training, and lines of responsibility. The advertisement should summarize the job description and include qualifications necessary for the job, salary, fringe benefits, and a request for references. Your advisor may have copies of job descriptions for his or her employees as well as copies of help wanted advertisements he or she has placed.

Job Title	Job Description	Help Wanted Advertisement

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PART D: VENDORS

1. Remind students that all small businesses depend on vendors (suppliers). In this relationship, the owner of a small business becomes the customer of the vendor. As the customer, the small business owner expects many of the same amenities and clear policies discussed in Part B.

2. Review the list of policies generated in Part B, #3.

3. Analyze each item on this list and discuss whether and how it applies to the vendor--small business owner relationship.

4. Ask students to add to this list topics that are especially important to the vendor--small business owner relationship. Such additions include:

   - Consignment
   - Storage of merchandise
   - Advertising
   - Display space
   - Frequency of restocking

   Define and discuss each of the topics added to the list.

5. Point out that the vendor can provide a number of important support services to a small business:

   - The vendor may extend credit to a business for products ordered. This allows the owner to maintain an adequate inventory even when the company's cash reserves are low.
   - Vendors in some situations cooperate with business owners on sales promotion campaigns by providing advertising money and/or promotional materials.
   - The vendors will sometimes take inventory for a small business and suggest new product lines or amounts of stock that the owner should order.
   - The supplier may be a vital source of information about new or improved products or methods of service that have just become available, as well as information about existing products.

6. **PROJECT REPORT** Distribute copies of "It's Your Business (VII): Vendor Policies," and ask students to refer back to the vendors they identified in the project component of Unit V, Part B, and to select three vendors they might deal with in their businesses. Ask students to:

- Research the terms, delivery, and discount policy of each vendor, as well as the support services in their businesses.

- Choose the vendor they would prefer to buy from and explain the choice.

IT'S YOUR BUSINESS (VII)

PROJECT REPORT

VENDOR POLICIES

Directions:

Refer back to the vendors you identified for your business (Project in Unit V, Part B), and select three vendors you might deal with in your business. All three vendors should be selling the same product. For each vendor selected, research the terms, delivery, and discount policy, as well as the support services offered.

Vendor	Terms	Delivery	Discount	Support Services

Choose the vendor you would prefer to deal with and explain your choice.

UNIT VIII: ORGANIZATIONAL STRUCTURE

SUMMARY:

Small business owners must decide early the form of legal organization of the enterprise. This decision may not be final. As the business grows and alters its operation over time, financial and tax situations may modify the advantages and disadvantages of the various legal forms of organization.

Most business firms in the United States are organized as one of three legal forms: the sole proprietorship, the partnership, and the corporation.

The business owner should be aware of the relative advantages and disadvantages of each form of organization.[1]

The owner should also consider the franchising alternative, know local licensing requirements, and set up an organizational structure. Legal advice should be obtained before making these decisions.

STUDENT LEARNING OBJECTIVES:

- Define and compare the three most common organizational forms (sole proprietorship, partnership, and corporation).
- Explain the concepts of franchising and licensing and the range of circumstances to which they apply.
- Explain the importance of assigning specific job responsibilities, in an organized manner, to each employee in a small business.

STUDENT PROJECT WORK:

- Speak with and list the names of two local lawyers experienced in small business law.
- Weigh alternatives and choose an organizational structure for the project business.
- Decide whether or not to be a franchisee.
- Research and list licensing requirements for the project business and owners.
- Develop an organizational chart and related job descriptions for the project business.

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[1] Based on Nelson, p. 37.

TEACHING STRATEGIES:

Part A: Introduction: lecture, discussion, project

Part B: Choosing an Organizational Form: lecture, class study, project

Part C: To Franchise or Not to Franchise: information sheet, discussion, project, optional student reports.

Part D: Licensing: information sheet, discussion, project

Part E: Organization - Who Does What?: Information sheet, project

MATERIALS PREPARATION:

Part A: No preparation

Part B: Duplicate "Comparing Legal Forms for a Business," research (and, if possible, obtain copies) legal documents required in your state for new businesses: corporations, partnerships (general and limited), sole proprietorships. Information should be available from your Secretary of State, Licensing Bureau, or from local or county government, such as the county treasurer or city clerk.*

Part C: Duplicate the Information Sheet "Franchising" (one per student) and Worksheet "To Franchise or Not to Franchise" (two copies per student).

Part D: Obtain from your Secretary of State or Attorney General's Office and local City Clerk a list of businesses which require licenses and of individual professions and trades that are licensed. Check these against project businesses and against the professions or trades required to conduct the businesses. If no requirements are relevant to your students' business needs, Part D, is optional. If you choose to teach Part D, duplicate the Information Sheet "Licensing" and Worksheet "Licensing."

Part E: Duplicate Information Sheet, "Organizational Chart and Sample Job Description for a Small Store."

MINI-PROBLEMS

Women and Minority Entrepreneurs:

9. "D. Blackwell." Half the students decide how many people work for Denise Blackwell, and what her salary is, while other half does the same for Dan.

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* N.B.: When requesting documents from government agencies, the instructor is advised to allow six weeks for delivery.

Other Mini-Problems:

3. "Employee or Partner." The problem calls for students to choose between being an employee or a partner in a business; to do this, they must identify what they need to know before they can make a decision.

7. "Line Drawing." A student attempts to describe a line drawing in words well enough for the other students to draw it accurately.

38. "Printing and Bookbinding." Students calculate savings for purchases in bulk, factor in fixed monthly expenses, and decide if it is more economical to use a large room for storage or for an income-generating printing press.

40. "A New Day." The owners of a successful career counseling business must decide if they should continue to keep all the profits as a return on their investment, or if they should set up a profit-sharing plan for all employees.

44. "What Next?" Students are asked to think about how they would feel about opening a new business on the heels of the failure of their first business, a gift shop, after only eighteen months of operation.

REFERENCES:

Liles, Patrick R., New Business Ventures and the Entrepreneur, Richard D. Irwin, Inc., Homewood, Ill. 60430, 1974, "Note: the Legal Forms of Business Enterprise," pp. 75-102.

Nelson, Robert E. and James A. Leach, Owning and Operating a Small Business, Illinois Office of Education, Department of Adult, Vocational and Technical Education, Springfield, Ill. 62777, 1976, "Unit Five: Choosing the Legal Form of Organization," pp. 37-41.

_______________, Franchise Company Data, Sales and Distribution, U.S. Department of Commerce, Washington, D.C. 20230 (free).

_______________, Buyerism: How to Buy a Franchise or a Small Business, WWWWW Information Services, Inc., Rochester, N.Y. 1970.

PART A: INTRODUCTION

1. Review the four ways of categorizing businesses presented in Unit I.

   - Types (manufacturing, wholesale, retail, service)
   - Intensity (capital intense, labor intense, knowledge intense)
   - Output (products, services)
   - Organizational structures (sole proprietorship, partnership, corporation, franchise)

   Tell students that the last is the focus of this unit.

2. Explain the need for competent legal advice in making organizational decisions. Ask students how they would go about identifying and choosing a lawyer. (Answer: the choice should be based on the lawyer's reputation in the area of new businesses, not on low fees or because the lawyer is a friend or a relative). Discuss why a lawyer is needed and how a lawyer can best be used. (Answer: laws, particularly in areas of taxation and liability, are complex; lawyers can be best used if they serve as advisors. They do not make the decisions.)

3. Ask students to suggest ways to identify lawyers and questions they might ask them in order to choose an appropriate lawyer.

   Possible answers:

   - How to identify: Ask advisor, ask other small business owners, ask fellow students.
   - Questions to ask: Number and types of small businesses advised,

     Current clients; experienced with which organizational structures;

     Fee structure, estimate of time required;

     Also look for warmth, tone, interest.

4. PROJECT REPORT As an outside assignment, students locate two local lawyers experienced in small business law. The lawyers' names and phone numbers, along with students' reasons for considering them appropriate should be turned in.

PART B: CHOOSING AN ORGANIZATIONAL STRUCTURE

1. Distribute the student Information Sheet, "Comparing Legal Forms for a Business." Allow students time to become familiar with the information.

2. Define the four basic legal forms of businesses.

   - A sole proprietorship is a business owned by one person.

   - A general partnership is a legal business relationship in which two or more individuals share responsibilities, resources and profits equally.

   - A limited partnership is a legal business relationship in which, according to a written agreement, some owners have limited liability for business debts and are not involved in the day-to-day operation. (They are sometimes called "silent partners.")

   - A corporation is a legal business relationship in which a group of persons join to create an entity treated by law as a separate individual. As an individual, the corporation, through its officers, makes contracts, conducts business activities, and assumes responsibility for debts.

3. To introduce the first section of the Information Sheet labelled "Human Resources," point out that as the organization grows and becomes more complex the organizational structure must be defined in greater detail. There are advantages and disadvantages for each type. For example, it is easier to attract qualified personnel to work for a corporation because of its ability to pay higher salaries and opportunities for advancement, but these employees constitute a higher fixed expense that forces the entrepreneur to maintain a higher business volume to support them.

4. To explain the second section of the Information Sheet "Initial Funding," mention that financing a business will be fully explored in Unit IX. The legal form of the business, particularly as it relates to liability, will directly affect their ability to raise capital to start or to expand their businesses. For example, a wealthy private investor will be hesitant to join in an enterprise in which he or she can be held liable for all debts.

5. The third section, "Government Regulation," needs to be checked in each state in which the entrepreneur operates. The fourth section, deals with the key issues of profitability and growth potential. Taxes are often the most important consideration in choosing a business form. For example, while a well-known problem of corporations is "double taxation" (of corporation profits and shareholders' dividends), a specific sub-category, "subchapter S corporation," avoids double taxation while preserving the limited liability so attractive to corporations.

> "There are other less common forms of legal organization, such as...the business trust, the partnership association, and the joint stock company, available to the small business. Although most businesses are organized as a sole proprietorship, partnership, or corporation, all forms of legal organization should be discussed with a competent attorney before any decision regarding which form to select is made. The attorney will need to know as much about the business and its owner(s) as possible, including the personal financial position of the owner(s), so that a sound recommendation can be made."[1]

Profits, distributed as noted in the chart, are an important source of growth capital. The larger the business and greater the profit, the greater the potential for growth. Students should be reminded that profits reinvested in a business may appear to be interest-free loans but are actually capital and, as such, should themselves earn profits.

6. Distribute the case study, "Crossroads," to students in small groups. Allow 20 minutes for them to agree on answers to the four questions.

Points to highlight:

- Ms. Garcia may be the key to Mr. Lowenthal's business success. He should first check her references thoroughly. Next, her commitment to the business should be supported by formal recognition of her importance. This makes the first choice a poor one.

- A general partnership would strengthen the management of the business. The "articles of partnership," should cover five areas, for the benefit of both partners:

  > "(1) divisions of profit or loss, (2) compensations to each partner, (3) distribution of assets in the event of dissolution, (4) duration of partnership, and (5) duties of each partner."[2]

- Incorporating may be the best choice here. Capital, in addition to Ms. Garcia's, would allow faster expansion and fuller use of the talents of both partners.

  Disadvantages: start-up costs, sharing management decisions, double taxation, more paperwork.

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[1] Nelson and Leach, p. 38.

[2] Nelson, p. 41.

7. Return to the Information Sheet, "Comparing Legal Forms for a Business." Based on student suggestions and your own experience, fill in any "Other Considerations."

8. Optional additional exercise: Invite one of the lawyers identified by students (in Part A above) to speak to the class about his or her experiences with choosing an appropriate legal form for small businesses of different types. With students, prepare questions in advance. You may want the lawyer to cover other areas in which small businesses benefit from legal advice, as in local zoning laws, or examining a lease.

9. **PROJECT REPORT** Students complete the section on the Information Sheet entitled "For My Business" as homework. They may consult their advisors and/or a lawyer in making the decision. They should submit their decision in writing to the instructor, including key advantages and disadvantages of their choice.

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COMPARING LEGAL FORMS FOR A BUSINESS

	HUMAN RESOURCES			INITIAL FUNDING		
	Management Control	Personnel and Expertise	Continuity, Transferability	Organizational Requirements and Costs	Ability to Raise Capital	Liability for Losses/Debts
SOLE PROPRIETORSHIP	One owner in total control	Depends mainly on owner's skills; hard to obtain quality employees	Ends on death of owner; free to sell or transfer	Costs lowest; (filing fee if under name other than owner's)	Limited: all equity (funding) must come from proprieter; loans based on strengths of individual	Owner liable for all debts
PARTNERSHIP general or (limited)	Divided among two or more partners; decisions by majority or by pre-established agreement; (limited partner can not manage)	Depends mainly on partners' skills; hard to find suitable partners or employees	Ends on death of partner (unless agreement provides otherwise); transfer conditions vary with agreement	Costs low; General: agreement optional but recommended; (Limited: agreement stating linbilites and responsibilities of each partner required	Limited to resources of partners; loans based on strengths of partners	Partners liable for all debts (Limited partner has restricted liability and involvement, as per agreement)
CORPORATION	Corporation acts as one person, but board of directors (influenced by votes of shareholders) hold legal, formal control; working control by those who manage day-to-day	Broad-based; allows for flexible management; easier to secure quality personnel with broad expertise	Continues with overlapping management; most flexible in transfer of "interest" (e.g., ownership) from one shareholder to another	Costs highest; legal forms, documents, and fees required	Greatest equity potential: can sell new stock; loans based on corporate financial strength and expertise, thus larger borrowing base	Corporation liable for debts (i.e., shareholders are liable only for amount invested, but if personal guarantees were given they are personally liable for more)

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COMPARING LEGAL FORMS FOR A BUSINESS -- PAGE 2

	GOVERNMENT REGULATION	REVENUE			OTHER CONSIDERATIONS*	FOR MY BUSINESS	
		Taxes	Profits	Growth Potential		Key Advantages	Key Disadvantages
SOLE PROPRIETORSHIP	Little; few records needed with minimum formal regulation (possibly a license, license fee and state tax)	Taxed as individual (through personal income tax)	All go to owner	Limited options: reinvest profits, obtain loan on credit of owner			
PARTNERSHIP	Limited; few records needed with minimum formal regulation; should have "articles of partnership" drawn up	Partners pay taxes as if in business as individuals (through personal income tax	Divided among partners	Limited options: reinvest profits, obtain loans on credit of owners			
CORPORATION	Greatest; extensive recordkeeping required; differs from state to state, but includes "articles of incorporation," bylaws, initial tax and filing fees, and shareholders' meetings	Corporation as entity pays taxes, and shareholders pay taxes on dividends as income (double taxation)	Retained in corporation and shareholders receive dividends	More options: reinvest profits (at discretion of board of directors); sell additional shares; obtain loans on corporate credit			

This area is often the most complex and important. It focuses on the concept of taxable entity. Discuss it with your lawyer.

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*These might include optimal starting size, managerial expertise required, etc.

IN-CLASS CASE STUDY

CROSSROADS

Milton Lowenthal is a designer who has been operating a small manufacturing business, Milo Products, in central Pennsylvania. His products, a line of pre-fabricated closets and storage units, appeal to architects who specify them in plans for customized housing developments, schools, and office buildings. The personalized service he provides architects and builders makes his storage units especially desirable and orders are coming in faster than he can fill them.

However, he is not pleased with the production side of the business. His production manager, Ray Harris, hasn't been getting the orders out on time. Last month two builders complained that the cabinets they received were not up to Milo's usual standards. He checked the complaints out and found that some cabinets were delivered roughly sanded with only one coat of varnish. Mr. Lowenthal feels that he cannot oversee production as well as design and sell the products. He discusses the problems with the foreman. Angry at the criticism, Ray threatens to quit.

Jo Garcia, whom he met at a National Home Show where he had a booth, impressed him with her knowledge, energy, experience with factory management, and concern for high quality. Ms. Garcia has experience in cabinet-making and has supervised carpentry assistants. In the letter accompanying her resume, she suggests that, with her as production manager, he would be free to use his skills and could even expand the business. She is so convinced of the potential of Milo Products that, if hired, she is willing to invest her savings, $20,000 in the business.

Mr. Lowenthal meets with his lawyer, Frances Snyder. She suggests that if he replaces Ray Harris with Ms. Garcia, he should consider a change in the form of his business. He has three alternatives:

- He can simply hire Jo as production manager, refuse her offer of investment, and remain a sole proprietorship.
- He can form a partnership with her, in which she invests her savings.
- He can incorporate and, confident of the production end of the business, plan an expansion financed with additional capital from shareholders, including Jo.

Suggested discussion questions:

1. What considerations should Mr. Lowenthal include in making the decision?
2. If he chooses a partnership, what should be included in the "articles of partnership" to guard his interests? Ms. Garcia's?
3. In this case, list advantages and disadvantages of incorporating.
4. What form would you recommend he choose? Why?

PART C: TO FRANCHISE OR NOT TO FRANCHISE

1. Distribute the Information Sheet, "Franchising." After students have had time to read it, divide the class into small groups.

2. Student in each group shall discuss pros and cons of franchising for their own businesses.

3. PROJECT REPORT. Distribute the Worksheet, "To Franchise or Not to Franchise" (one per student; make extra copies for students investigating more than one franchisor). All students should investigate whether franchisors exist for their type of business (use Yellow Pages to question business owners, ask advisors, etc.). Businesses for which franchisors exist should all complete questions 2-6. Only those still interested in the franchising alternative should complete question 7.

4. Students who have chosen to franchise should report to the class the steps they have taken. They should also summarize the contract(s) and answer any questions the instructor or students pose.

INFORMATION SHEET

FRANCHISING

FRANCHISE - A distribution contract or "license" between two entities, the franchisor and franchisee. It is not an additional legal form; either party can be an individual, partnership, or a corporation. Most franchisees are at a retail or service level. Basically, the franchisee invests capital (approximately $25,000-100,000) in exchange for the expertise and widely-known product image of the franchisor. Often the fee includes the cost of start-up stock. Examples of franchisors: McDonald's, Realty World, General Motors, Roto-Rooter, Sunoco.

THE ADVANTAGES AND DISADVANTAGES LISTED BELOW ARE EXAMPLES OF SOME OF THE CONTRACTED ARRANGEMENTS BETWEEN FRANCHISEES AND FRANCHISORS. HOWEVER, SUCH RELATIONSHIPS VARY FROM FRANCHISE TO FRANCHISE.

ADVANTAGES:

- The established reputation of the franchisor helps bring in business.
- The franchisor can offer a proven marketing strategy, including advertising, sale items at reduced prices, and sales incentives.
- Training and guidance may be provided to get the business going, as in setting up business, ordering and bookkeeping, and regular training meetings.
- Proven products and methods supplied by the franchisor can help bring in business.
- Accounting and record keeping systems may be provided.
- Financial assistance is sometimes provided in the form of credit, low interest loans, or insurance, available through the volume buying power of the franchisor.

DISADVANTAGES:

- Franchisees must buy from designated or approved suppliers
- In addition to the original investment, the franchisee must pay the franchisor a percentage of gross sales (not just of profits).
- The franchisor may choose not to renew the contract each time it expires (often yearly).

- In addition, the contract may be terminated by the franchisor for any of numerous reasons stated in the contract, thus allowing termination virtually at the will of the franchisor.

- If the contract is revoked, the franchisor will pay the franchisee for equipment, supplies, and stock on hand, an amount often much less than the franchisee's total investment.

- If the contract is revoked, the franchisee cannot open a similar business in the same area ("anti-competition clause").

AS WITH ANY CONTRACT, BE ALERT FOR WHAT MIGHT GO WRONG. It is strongly recommended that prospective franchisees see a lawyer before signing, to explore the contract provisions. The contracts are designed by the franchisors to protect themselves by means of restrictions on the franchisee. As long as the franchisee accepts these controls and maintains a good working relationship with the franchisor, few problems should arise.

There is no protection in the contract if the franchisee is not satisfied with the franchisor's policies. Once a franchising contract has been signed, there are few legal remedies for franchisees. Some suits have been successfully brought under federal and state anti-trust statutes concerning required suppliers and other franchisor controls. Some states have strong franchise legislation. In addition, the Uniform Commercial Code (a similar set of statutes passed in each state which regulates commercial dealings) contains two concepts that can support franchisee actions against franchisors, "unconscionable contracts," and "good faith dealings."

However, litigation is an expensive process, and the above statutes are recent developments that contradict the traditional notion that a contract is binding, no matter how harsh its application. In court, this traditional concept of a binding contract often prevails.

WORKSHEET

TO FRANCHISE OR NOT TO FRANCHISE

Business: ____

1. Do franchisors exist for my type of business? ___No (stop here) ___Yes (go on).

2. Which franchisors? (List here, then we separate sheets to answer further for each franchisor considered.) ______________________________

____

2. Franchisees contacted:

Name ____________________ Business Name ____________________ Phone __________

Name ____________________ Business Name ____________________ Phone __________

Name ____________________ Business Name ____________________ Phone __________

4. What advantages did they list?

5. What disadvantages?

6. Preliminary decision: ___Not to Franchise (stop here) ___To Franchise with ______________(franchisor).

7 Obtain a sample copy of this franchisor's contract. Review it with your advisor and, if possible, with a lawyer. Be prepared to summarize the protections, benefits, and responsibilities listed in the contract for both franchisor and franchisee. Set up a date to report to the class: ______________.

Student(s) ________________________________ Date ______________________

PART D: LICENSING

1. Distribute the Information Sheet, "Licensing," emphasizing that requirements vary widely, depending on the location and nature of the business. If possible, supplement the information sheet by showing students samples of licensing documents (see Materials Preparation at start of Unit VII) needed by a few project businesses.

2. **PROJECT REPORT:** Distribute the Worksheet, "Licensing." Students investigate whether their business or trade/profession requires licensing or registration by asking their advisors, then contacting appropriate state and local agencies.

   A suggested step for projects identified as requiring some form of licensing: students obtain documents relevant to their businesses:

   1. Written explanation of the licensing procedures.

   2. Any required forms.

   Information and documents can be shared with the rest of the class.

INFORMATION SHEET

LICENSING

Licensing requirements vary from state to state and city to city. They also vary depending on the type of business, e.g., manufacturing, and the products or services. In addition, individuals practicing particular trades or professions, or keeping certain materials, are licensed.

Federal and State level

1. Uniform Commercial Code and General Laws, available at libraries, specify standards for interstate business and for mortgages, sales contracts and financing at the state level.

2. While corporations are not licensed as such, they are required to register with the state (see Part B of this Unit). Partnerships and sole proprietorships must register locally only, if doing business under a name other than the owner's (the DBA form, "doing business as").

3. Businesses of many kinds are also subject to labor laws, discrimination laws, motor transport regulations, natural resource regulations, health laws and regulations, and trade laws and regulations. These legal requirements should be thoroughly investigated, understood and planned for before the business opens. A lawyer's advice in complying with such laws and regulations can be very helpful.

4. Contact the Office of the Secretary of State or the Attorney General in your state for a list of businesses that must be licensed.

Examples:	Massachusetts Consumer Product Protection Agency	Manufacturers of bedding, stuffed toys Wholesalers of meats and poultry Food processors
	Alcoholic Beverage Control Board	Liquor stores
	Department of Public Health	Nursing homes

Local Level

Following is a list of businesses that require licenses in the City of Boston. Contact your City Clerk and Local Health Department for licensed businesses in your area.

-- Entertainment businesses
- automatic amusement devices
- motels
- pool rooms

-- Businesses handling dangerous products
- ammunition, firearms, shops
- hazardous chemicals
- dry cleaning stores
- fumigation businesses

- -- health and education related business
  - day care centers
  - massage parlor*
  - electrolysis services*
- -- Food processors/handlers
  - bakeries
  - retail food shops
  - restaurants
  - milk and ice cream shops
- -- Miscellaneous businesses
  - auto wrecking yards
  - cemeteries
  - taxi agencies
  - lumber yards
- -- Businesses serving alcoholic beverages
  - bars
  - liquor stores

Individuals in particular trades or professions requiring licensing/registration:

(All examples are from Massachusetts.)

State Level (Contact your State Registration Board)

- -- Trades
  - hairdressers
  - plumbers
  - realtors
  - radio and TV technicians
- -- Professions
  - architects
  - optometrists
  - psychologists

Local Level

- electrologists
- fortune tellers
- funeral directors
- gunsmiths
- junk collectors
- osteopaths
- pawn brokers
- street peddlers
- second-hand dealers
- taxi drivers (from local police department)
- transient vendors (at location less than one year)
- used car dealers

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* In these cases, both the individual and the business must be licensed.

WORKSHEET

LICENSING

Business: ____

Does this business, or do I, need to be licensed in this state or city?

____

Advisor's answer:

State sources contacted: (Name and address or phone)	Results:
Local sources contacted:	Results:

Documents collected (attached):

Name(s) ____________________________________ Date ________________

PART E: ORGANIZATION--WHO DOES WHAT?

1. Ask students how important they think it is for an entrepreneur to delegate responsibilities to his or her employees. Why? What can you gain by delegating responsibility to employees? What can you lose?

2. Ask students which responsibilities can be delegated to employees. Which should not? Write their answers on the board in two lists, and ask the class to analyze the functions to see if there is a common thread in the "should not delegate" list. (The answer should be that business functions which could lead directly to the business' failure should not be delegated.

3. Distribute the Information Sheet, "Organizational Chart and Sample Job Duties for a Small Store." Explain the steps that an owner follows to reach these decisions.

   a. List all tasks and responsibilities in the business.

   b. Assign tasks and responsibilities to oneself and employees.

   c. Establish lines of supervision.

   d. Draw up organizational chart, reflecting lines of supervision.

   e. Write job descriptions for each type of employee containing detailed job specifications.

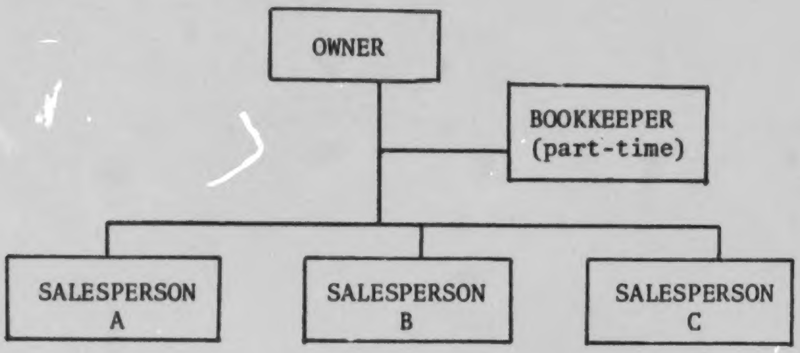
4. PROJECT REPORT A Students do steps a-d for their businesses as homework. They should check the results against the job descriptions written in the Unit VII section on personnel policies. Advisors may be consulted. In class, students in small groups should present their charts to each other. The charts should be revised if necessary and turned in.

5. PROJECT REPORT B Using the Worksheet, students should write job descriptions for themselves as owners and managers of their businesses. They should then return to the job descriptions they wrote in Unit VII for employees, and revise as necessary, taking care that responsibilities do not overlap, that all areas of responsibility are assigned, and that they have not assigned too many tasks to themselves. Estimating the number of hours each task requires weekly will help prevent overburdening any one employee.

6. Explain that the chart and job descriptions are key items in an operations manual. It should be available to employees and should list all business procedures, expectations, and employee benefits.

INFORMATION SHEET

ORGANIZATIONAL CHART AND JOB DUTIES FOR A SMALL STORE


OWNER
BOOKKEEPER (part-time)
SALESPERSON A
SALESPERSON B
SALESPERSON C

Job title: Salesperson

		APPROXIMATE HOURS PER WEEK:
A, B, and C:	Sell goods	20
	Provide customer service	5
	Carry Out Merchandise Control (1/3 of stock each)	2.5
	Arrange stock	
	Report slow-moving items	
	Report stock shortages	
A only:	Order from designated suppliers, make out price tags	10.5
	Purchase supplies	2
B only:	Receive and check orders	7.5
	Make out price tags	5
C only:	Create store displays	4
	Write promotional materials	3.5
	Maintain store appearance	5

Responsible to: Owner

Supervises: no one, except part-time seasonal sales help

Salary range: $6,240 - 9,360

WORKSHEET

JOB DESCRIPTIONS

Job Title:
Salary Range:

Responsible to:
Working Hours:

Supervises:

Duties and Responsibilities (most important first):
1.
2.
3.
4.
5.
7.
8.
9.

Job Title:
Salary Range:

Responsible to:
Working Hours:

Supervises:

Duties and Responsibilities (most important first):
1.
2.
3.
4.
5.
7.
8.
9.

Job Title:
Salary Range:

Responsible to:
Working Hours:

Supervises:

Duties and Responsibilities (most important first):
1.
2.
3.
4.
5.
7.
8.
9.

UNIT IX: FINANCING YOUR BUSINESS

SUMMARY: Securing the initial investment capital and managing finances properly after starting a business are major concerns for the new entrepreneur. Students must understand both these activities in order to succeed in a small business venture. The business proposal required for a loan application uses many of the standard accounting procedures that will be maintained in the running of the business.

STUDENT LEARNING OBJECTIVES:

- Understand basic financial terminology and use it correctly.
- Recognize possible sources of capital and identify the kinds of capital required to start a small business.
- Complete the forms required for applying for a business loan.

STUDENT PROJECT WORK:

- Identify and select a lending institution, based on the special needs of the project business.
- Conduct an interview at the loan institution to determine the requirements for a loan and the necessary forms.
- Complete the required forms for a loan application.
- Submit the loan application to the instructor for review.

TEACHING STRATEGIES:

Part A: Preparing to Obtain a Loan: lecture, discussion information sheets.

Part B: Preparing Personal Information: in-class exercises and case study, homework case study.

Part C: Preparing Business Forms for a Loan Application

C.1: Introduction: lecture, discussion

C.2: Loan Officer Guest Speaker: speaker, discussion

C.3: Preparing A Business Description: lecture, exercise

C.4: Sources and Applications of Cash: lecture, exercise and discussion

C.5: Preparing a Balance Sheet: lecture, exercise and discussion

C.6: Income Statement and Projected Income Statement: lecture, exercise and discussion

C.7: Cash Flow Statement: lecture, exercise and discussion.

Part D: It's Your Business (IX): interview, report.

MATERIALS PREPARATION:

Part A: Preparing to Obtain a Loan: Duplicate "Glossary of Financial Terms," (see Appendix). Order SBA's "Checklist for Going Into Business," SMS #71, one copy per student.

Part B: Preparing Business Forms for a Loan Application: Prepare "Sample Personal Resume," "Personal Resume Form," "In-class Case Problem for Completing a Personal Financial Statement," and "Personal Financial Statement Case Problem-Homework," one copy of each per student. Prepare "Personal Financial Statement," two copies per student.

Part C: Preparing Business Forms for a Loan Application:

C.1: No preparation.

C.2: Invite speaker.

C.3: Duplicate, "Sample Business Description."

C.4: Duplicate the Worksheet, "Sources and Applications of Cash," two copies per student. Duplicate the In-class Case Study, "Sources and Applications of Cash," and the Homework Case Study "Sources and Applications of Cash."

C.5: Duplicate "Sample Capital Equipment List," "Sample Detail Balance Sheet," the In-class Case Study, "Balance Sheet," and the Homework Case Study, "Balance Sheet," one copy per student. Prepare the Worksheet, "Balance Sheet," two copies per student.

C.6: Duplicate the "Sample Projected Income Statement," "Sample Income Statement," the In-class Case Study, and the Homework Case Study, "Projected Income Statement," one copy per student. Duplicate the Worksheet, "Projected Income Statement," two copies per student.

C.7: Duplicate the In-class Case Study, "Cash Flow Statement," Homework Case Study, "Cash Flow Statement," one copy per student. Duplicate the Worksheet, "Cash Flow Statement," two copies per student

Part D: Duplicate "Student Instructions."

MINI PROBLEMS:

Women and Minority Entrepreneurs:

10. "Financing." Facts, figures and strategies for businesses owned by women and minorities.

Other Mini-Problems:

13. "Bank Statement." Students reconcile a luncheonette's checkbook register with a bank statement.

16. "Credit in Alaska." Students choose between the roles of a store owner and a customer in a problem involving an insufficient credit rating for a charge account.

26. "Paper Airplanes." The exercise calls for students to write instructions for making a paper airplane, and stresses clarity, conciseness, and accuracy of written language.

30. "Vincent Martino." Having come upon hard times, the owner of a small factory making metal garden rakes and hoes has decided to cut his own salary and that of his 25 employees by 10 percent as a means of regaining financial stability.

37. "Limited Resources." Given a limited amount of money and large debts and expenses, the students are asked to decide what the owner of a window washing service must pay immediately and what can be postponed.

REFERENCES:

Fram, Eugene H., Small Business Credit and Finance, Dobbs Ferry, New York: Oceana Publications, Inc. 1966.

Nicholas, Ted Where the Money is and How to Get It, Wilmington, Delaware: Enterprise Publishing Co., Inc. 1973

INSTRUCTOR'S OVERVIEW

The purpose of Unit IX, "Financing Your Business," is to provide students with the skills and knowledge required to obtain a small business loan, under the assumption that most students in the course are planning to start a business in the near future. A variety of teaching strategies have been built into the curriculum to bring students, step-by-step, from:

- an initial awareness of the procedures and forms required to obtain a business loan;
- through the principles, purposes, and techniques of completing the major forms required to obtain a business loan;
- to the actual application for a loan at a commercial lending institution, if so desired by students.

These strategies include lectures, in- and out-of-class exercises, the use of guest speakers, and finally, student contact with lending institutions and loan officers. The students should complete the unit with an increased confidence in their ability to handle the loan application procedure and with sufficient technical skill to carry out the planning and forms preparation required to obtain a loan.

Classroom Instruction

The instruction, leading up to the student project, will occur in the classroom setting. This material focusses on the knowledge and skills required to complete a loan application by means of lectures and exercises which are designed to help students understand how to complete forms and how to make planning projections for their new businesses. The lecture materials, exercises and forms appear as Unit IX, Parts A through C.7.

Other Materials

Another instructional aid for presenting the contents of this Unit to the class is "The Dow Jones-Irwin Business Papers," which covers much of the same material and includes tear-out forms needed in creating a business.

NOTE: The instructor is advised to order the "Checklist for Going Into Business" from the Small Business Administration (see Materials Preparation for Part A of this Unit) six weeks in advance of the expected date of the discussion of the pamphlet, to allow for processing of delivery.

PART A: PREPARING TO OBTAIN A LOAN

1. Distribute copies of "Checklist for Going Into Business." Ask the class to look through the pamphlet. Explain that the booklet points up some of the issues they should think about before applying for a loan. Have the class go through the "Checklist" in class for an overall grasp of its contents.

2. Explain to students that a business operation may be thought of as a pool of funds coming from a variety of sources, such as investments by the owners or others, creditors who lend the business money through deferred payment to them, and past earnings retained in the business. The purpose of this unit will be to examine the types and potential sources of this pool of funds to begin a new business or to purchase an existing business. The unit will also deal with the outflow of money from the business in the form of business expenses, such as rent, utilities, salaries, purchase of supplies and stock, that are required to conduct the business.

3. Tell the students that they will be learning how to obtain a loan from a commercial lending institution in the course of this unit, as part of the total effort of acquiring enough capital (money) to start their own business. Point out that many of the required steps and procedures in obtaining a loan will relate directly to concerns which have been covered earlier in this course during the year. These include initial marketing efforts, planning, recordkeeping, choice of location, and promotional techniques. Point out that they will also need to learn about accounting techniques. Tell them that a loan officer will visit the class to explain some basic aspects of the loan application process.

4. List on the board the types of activities which will be included in the unit. Specifically, students will learn to complete:

    - a personal resume and a personal financial statement
    - a business description
    - a Sources and Applications of Cash Statement
    - a Balance Sheet
    - an Income Statement
    - a Cash Flow Statement

5. Allow time for students to ask questions about the content of the unit. Some areas of concern may be:

   - How much math will be needed? The unit has been designed to provide students with increasingly challenging problems as it progresses, but the first problems will be quite simple and are intended as a refresher for business math. Students should be able to handle the math.

   - Where will the dollar amounts required to complete the loan forms come from? These dollar amounts are presented in a series of case problems. The figures will be taken directly from the case study.

6. Distribute "Glossary of Financial Terms" for out-of-class study and reference. (See Appendix)

PART B: PREPARING PERSONAL INFORMATION

1. Tell the class that they will need to prepare two kinds of information before obtaining a loan to begin their business.

   (1) They will need to prepare information that will tell the loan officer about the background of the person or people to begin the business. This will include;

   - a Personal Resume
   - a Personal Financial Statement

   (2) They will also need to prepare information that will tell the loan officer about the business to be started. If the business is new, the information will be based on plans and projections; if you are purchasing an existing business, the information will also concern the actual history of the business.

2. Distribute the sample personal resume and a blank form. Point out to the students that the purpose of the resume is to provide the loan officer with a picture of the individual's (or group's) capabilities, education, and experiences, especially as those elements relate to their ability to operate the specific business which they hope to start. For example, someone who wants to start a graphics display service should provide some evidence of knowledge about art, design, etc., as well as business management ability. This background may have been obtained through education, work experience, or special interests, or a combination of all these elements. The important thing to remember is that the resume will let the loan officer know what your background is and allow him or her to work with you as a person they know something about, not just a person sitting in a loan office. This is because the loan officer is responsible for protecting the bank's money, meaning the depositors' money, so he or she must find out if you are a good risk. If students do not understand the concept of "a good risk," explain it to them.

3. Ask the class to prepare factual personal resumes on the blank form, using additional pages if needed. They should include:

   - name
   - address
   - educational experience: schools attended, diplomas and/or degrees, major subjects, most relevant courses
   - work experience: for each job, name and address of employer, job title, short description of the job, and length of time (dates) employed
   - special interests that are relevant to your business plan or that the reader should know about you.

Some people also include the names, addresses, and telephone numbers of references: people who may be reached to validate work experience or character. Women especially should know that by law they are not required to specify marital status or whether they have children.

4. When the personal resumes have been completed, either in class or as homework, ask students to evaluate their own resumes in terms of the experience, education, and interests listed, and to list several types of businesses which they believe that their resumes would provide a basis for.

5. Introduce "Personal Financial Statement." Tell the class that this is simply a compilation of different kinds of records they already have (or will have) when they are working and when they have bank accounts.

6. A personal financial statement includes a list of your personal assets (what you own outright or what you can convert to cash or cash on hand) and your personal liabilities (money you own to someone or to an institution on a long- or a short-term basis). The purpose of the personal financial statement is to let the loan officer know:

   - what your general financial status is;
   - how much money you have available to invest in the business;
   - whether you have credit references from current loans; and
   - how well you appear to handle your own finances.

   The personal financial statement would be completed from your existing personal financial records. To document your assets, you will need to consult your check book and savings passbook for cash assets, notes or I.O.U.s which indicate money owed to you by others, bills of sale or current appraisals of property for which you have paid to indicate your fixed assets. To determine your liabilities, you will need to consult your check book for outstanding, ongoing payments for short- and long-term debts, monthly bills which indicate the total amount you owe in revolving or time payment charges, and bank records which indicate specific loans which have yet to be repaid. These are to be entered on the personal financial statement form.

7. Distribute copies of the in-class case study and a blank form Ask the students to read through the case study and to examine the form.

8. Using the in-class case study, ask students to participate in filling out the blank form. (It may be helpful to draw a large form on the board or an easel pad to fill in as the case study progresses.) The questions at the end of the in-class case study may be used to guide students in filling out the personal financial statement form, and to serve as a basis for discussion. Answers to the questions:

   1. $5,400 in savings. Her checking account balance of $450 is expendable income.
   2. None.
   3. $560, or 56 x $10 per share.
   4. Yes, she can count her car as $100 in assets.
   5. $6,060, or $5,400 in savings plus $560 in stock plus $100 from her car.
   6. The savings account.
   7. $300.
   8. $180 rent (or ½ the total $360), $22 telephone bill, $20 (or 1/3 of $60) for insurance. Her other bills, such as revolving charge payments, are balanced off the total credit liability of $300.
   9. $522, or $300, plus $180, plus $22, plus $20.
   10. Her assets.
   11. Yes.
   12. Yes.

   13. and 14. For the class to discuss.

9. When the in-class case study about Alva has been completed, distribute the Personal Financial Statement problem about Eric Grossman, to be done as homework. Answers for that problem are:

1. The Grossmans' total cash assets are $2,231.53.

2. Eric will collect $2,625.00, including interest.

3. Eric can consider the assets from his house and his car to be:

   (a) the house: $13,200 or $10,000 down payment plus $3,200 in mortgage payments to date.

   (b) the car: $650 "blue book" value.

4. The Grossmans still owe money on:

   (a) the long term debt of $44,800 as unpaid balance (i.e., principal and interest) for the house.

   (b) short term monthly debts (i.e., bills) of $630 for living expenses.

   (c) they have no credit cards.

5. Their total assets are:

   (a) $2,231.53 in cash assets (savings and checking accounts)

   (b) $2,625 for the loan to his brother-in-law, which falls due next month.

   (c) $13,200 for the house and $650 for the car.

The Grossmans' total assets are $18,706.53 in all.

6. The Grossmans' total liabilities at the present time are $45,430, including their long term mortgage debt and their current monthly expenses for this month.

7. He will need $1,240 for the two months, yes, he can meet these expenses.

8. $4,856.53 total cash available in the next two months.
   -1,240.00 living expenses for next two months

   $3,616.53 available to invest in the business

9. His house and his car.

PERSONAL RESUME

Preparing a resume is the first step in packaging your loan request. A resume is a written picture of you and tells the lender who you are, what you are doing now, and what you have done in the past. The lender will need to know about you, as you are the key to the success of your business.

The following is an example of a well-prepared resume.

Name: James W. Johnson

Home Address: 42 West Third St., Los Angeles, CA 90000
Phone: 622-2223

Personal: Born May 23, 1943 in Los Angeles.

Social Security Number: 108-30-0676

Job Experience:

1/1976-Present Parts salesperson for Sportscars Unlimited, 30 Jay Street, Los Angeles, CA.

10/1964-12/1966 Shipping clerk, Sportscars Unlimited

My first job at Sportscars was as a clerk in their shipping department where I received, inspected and recorded deliveries of parts. In January of 1967, I was promoted to salesperson and during the past six months I have managed the business for my boss whenever he was away.

1959-1961 Summer and part-time after school, I sold gas and did minor repair work at Al's Tire Center, 590 Pinewood Avenue, Los Angeles.

Military:

9/1961-9/1964 After graduating from high school, I enlisted in the Army. I was assigned to 32 weeks training in Machine Repair School and spent the rest of my time driving and servicing motor pool cars. (This included requisitioning necessary parts.) I received an Honorable Discharge in 1964.

Education: Graduated from Central High School, June 1961.
Army Machine Repair School; completed 32 weeks.
Currently taking "Beginning Accounting" in the evenings at City College.

Other Interests: On weekends I work in the pit crew of a friend who races professionally at Meadows Speedway. I am also a member of "Big Brothers."

Character References:

Mr. William Edwards, present employer; owner of Sportscars Unlimited.
Mr. D. R. Redding, Professor of Accounting, City College.
Captain Joseph Hartnett, Fort Ord, Commanding Officer

Adapted from "How to Apply for a Small Business Loan," United Bank of Denver; Denver, Colorado.

PERSONAL RESUME

IN-CLASS CASE STUDY

PERSONAL FINANCIAL STATEMENT

Alva Wilson has been planning to start a bakery for several years As an employee of a large commercial baking firm, she has managed to save $5,400 in a savings account. She also has $450 in her checking account at the present time, but this money is needed to use for living expenses such as food, rent and for payment of bills. Her company has also provided Alva with an option to buy stock, with an employee contribution taken from each paycheck and an equal contribution by the company. She now has 56 shares of Consolidated Foods stock which are worth $10 per share.

Alva rents an apartment with her sister Sylvia for $360 per month, each sister paying half. All utilities are covered by the rent with the exception of telephone, which normally runs about $22 a month. Alva pays the entire bill. She also carries a life insurance policy which requires a payment of $60 quarterly (every three months). Her 1965 Dodge is fully paid for and her mechanic says that, although the car is still running well, it is worth only $100 by the Blue Book value. Alva also has a balance of $300 in her revolving credit card bill; although she pays approximately $20 per month towards this debt, her new charges each month usually equal what she pays.

Alva has worked for the Consolidated Foods Bakery for seven years and now has the position of head pastry cook. She is an excellent cook and has many ideas about the types of baked goods she would like to make and sell. She has found a good location and plans to rely on customers coming into the store from the neighborhood, rather than distributing her baked goods to retail outlets across the city. Therefore, Alva will need to set up a shop in addition to the actual bakery at her new location.

CASE STUDY QUESTIONS

1 How much cash can Alva count on as an asset?

2 How much money is owed to Alva in notes, debts, etc.?

3 How much stock can Alva consider in determining her total assets?

4 Can Alva count property such as a home, equipment, or an automobile as assets?

5 What are Alva's total assets?

6 Which of Alva's assets are most immediately available for investment in the business?

7 What are Alva's charge account liabilities?

8. What other bills are payable?

9. What are Alva's total liabilities?

10. Which are greater, Alva's assets or her liabilities?

11. Could Alva pay off her current debts, such as the credit card, with her assets?

12. Could Alva live without a salary for a period of time while she starts up her business?

13. If you were a loan officer, do you think that Alva would be a good credit risk for a business loan, given everything that you know about her?

14. Do you think there is anything else the loan officer might want to know about Alva's finances before giving her a loan?

PERSONAL FINANCIAL STATEMENT

for applicant ALVA WILSON

(Assets)

I (we) own the following:

Cash (checking and savings accounts) . . . . $______

Money owed to me (us) . . . . $______

Notes . . . . $______

Stocks & Bonds . . . . $______

Home and other real estate . . . . $______

Equipment and tools . . . . $______

Automobiles . . . . $______

Other . . . . $______

Total Assets . . . . $______

(Liabilities)

I (we) owe the following:

Charge accounts and other bills payable . . . . $______

Total payable on automobiles . . . . $______

Real estate loans . . . . $______

Other . . . . $______

Total Liabilities . . . . $______

My (Our) Net Worth . . . . $______
(Total Assets Less Total Liabilities)

HOMEWORK CASE STUDY

PERSONAL FINANCIAL STATEMENT

Student Instructions: Read the following case study carefully before starting to fill in the blan Personal Financial Statement form. When you have completed reading, look through the form item by item. Then re-read the case problem and fill in the appropriate figures from the case study on the corresponding lines of the form. Some assets and liabilities may be taken directly from the case study and entered on the form. Others, however, may need to be added together, divided, subtracted, or multiplied before entering the correct figure on the form. A second set of questions asks you to make decisions about the main characters' readiness to go into business. To answer them, you should think about your reasons for deciding one way or the other.

* * * * * * * * * *

Eric Grossman is planning to open a shoe store in a new shopping center and wants to leave his present job in order to start his own new business. As manager of another shoe store in town, Eric has managed to save $1,475 in the past several years from his $800 take home salary each month. He also has a joint checking account with his wife, Amanda, which currently holds a balance of $756.53.

Eric, Amanda and their three small children live in a three bedroom house in a suburban, residential area. They paid $34,000 for the house; because of a gift from Eric's parents, they were able to make a $10,000 down payment to ensure that their monthly mortgage payments would be manageable. Through an arrangement with a credit unit, their remaining mortgage of $24,000 is at a low interest rate. Over the next ten years, they will actually pay $48,000 to cover the principal and interest on the original loan. This will be paid off at the rate of $400 per month, including property taxes. However, since they have only lived in the house for eight months, most of the mortgage payments have been applied toward payment of the interest on the loan; the balance of the principal (or the $24,000 actually borrowed) has not changed very much during the time they have lived there.

In addition to their monthly mortgage payment, the Grossmans pay a pro-rated monthly fuel bill of $55, a telephone bill of $15 and an electricity bill of $45. Eric also carries auto, health and life insurance which costs him a total of $70 per month. Gasoline and upkeep on their 1974 Buick is approximately $45 per month. The Buick, which is now fully paid for, has a "blue book" value of $650. The car is running well and the Grossmans are anxious to avoid buying a new one for several years.

Last year, Eric loaned $2,500 to Amanda's brother at 5% interest to start a cleaning service. The loan will fall due next month and Amanda's brother, who has done well in his new enterprise, has told them that he expects to pay off the debt in full at the time it falls due.

Eric and Amanda have carefully checked the possible locations that would be good for a shoe store. Eric can now obtain an option for a 5-year lease on his first choice for a location in the new shopping center; in order to take advantage of this opportunity, however, he must come to a decision within the next two weeks. He believes that the shopping center is an ideal location since there are no other shoe stores in the center and there are a number of clothing stores nearby. Because Eric has been in the shoe business for several years, he has contacted several shoe manufacturers who have offered to let him order his initial inventory on credit for 30 days after the store opens. He knows that he will need to hire at least one half-time employee who will earn approximately $400 per month. Amanda herself will not be able to work as a salesperson, since the cost of day care for the children would be prohibitive. She will, however, handle the books for the business since she has extensive experience in accounting and has recently done work of this type for her brother.

At the present time, Eric is not sure that it would be a wise decision to start his new business right now. Amanda has convinced him that he should prepare a personal financial statement to show the loan officer at the bank and that he should abide by the decision of the loan officer. If the loan officer decides that Eric is a good risk, he will leave his present business and start his own. If the loan officer refuses a loan, Eric will wait until he has more experience or money to invest in his own business.

Personal Financial Statement Form Questions:

1. What are the Grossmans' total cash assets, including that which they have saved and that which is currently in their checking account?
2. How much will Eric collect from his brother-in-law including the 5% interest, at the time of the loan repayment?
3. How much can Eric consider his car and his house as assets?
4. What do the Grossmans still owe money on? How much will:
    (a) their total mortgage amount to, including interest and principal but minus the down payment and the monthly payments made thus far?
    (b) their monthly bills amount to?
    (c) their monthly credit card payments amount to?
5. What are the Grossmans' total assets?
6. What are the Grossmans' total liabilities?

7. Eric will need to cover his personal expenses for two months before he can expect to draw a salary from his new business. Can he cover these expenses (rent, utilities, insurance, etc.) from his existing cash assets if his brother-in-law repays his loan on time?

8. What is the maximum amount of money that Eric will have to invest in the business (assets minus short-term liabilities for two months)?

9. What can Eric use as collateral to obtain a loan from the bank?

PERSONAL FINANCIAL STATEMENT

for applicant ERIC GROSSMAN

(Assets)

I (we) own the following:

Cash (checking and savings accounts) . . . . $__________

Money owed to me (us) . . . . $__________

Notes . . . . $__________

Stocks & Bonds . . . . $__________

Home and other real estate . . . . $__________

Equipment and tools . . . . $__________

Automobiles . . . . $__________

Other . . . . $__________

Total Assets . . . . $__________

(Liabilities)

I (we) owe the following:

Charge accounts and other bills payable . . . . $__________

Total payable on automobiles . . . . $__________

Real estate loans . . . . $__________

Other . . . . $__________

Total Liabilities . . . . $__________

My (Our) Net Worth . . . . $__________
(Total Assets Less Total Liabilities)

Decision Questions

1 From Eric's and Amanda's point of view, do you think that Eric should leave his present job to start his own new business now? Give reasons for your answer based on Eric's financial status, family situation, and his experience.

2 If Eric does decide to leave his present job now, how much of his total case assets, do you think he should put into the business? Should some be retained in his bank accounts? Explain your reasons.

3 If you were a bank loan officer, would you make a loan of $20,000 to Eric to start his new business? List the pros and cons.

PART C: PREPARING BUSINESS FORMS FOR A LOAN APPLICATION

C.1: INTRODUCTION

1. Ask the class to raise their hands if they have ever applied for a bank loan of any type or accompanied anyone else who was applying for a loan. (There should be few raised hands.)

2. Point out that many people are not familiar with the procedures for obtaining a loan and may feel uncomfortable about the process. The purpose of this unit, in addition to teaching students the correct way to prepare for the application process and fill out forms, is to provide students with suggestions which will be useful in the actual application process. They include:

   - Arriving with all the information the loan officer will need to decide whether or not the applicant is a good risk for a business loan.

   - Evidence that the applicant has carefully thought out the details of the business.

   - Attitudinal factors on the part of the applicant which provide the loan officer with a further indication of the individual's ability to run a business enterprise successfully. These include:

     -- Whether the applicant listens to the loan officer's advice. If the applicant does not appear to listen carefully or constructively, the loan officer may reason that he or she may not listen to the advice of an accountant or a lawyer either.

     -- The extent to which the applicant appears to apply good reasoning and practicality to the solution of any problems which may arise in the course of the application interview. This will give the loan officer a fairly good idea about the way in which the applicant deals with problems or concerns of his or her business on a day-by-day basis.

     -- The extent to which the applicant indicates a willingness to invest his or her own money in the business. This element is a good indicator of the degree of the applicant's confidence in the success of the new business.

     -- The extent to which the applicant appears to be willing to put his or her energy into the new business. This is an indicator of the applicant's understanding of the level of effort usually required to start a new business and keep it operating well after it has begun.

3. Point out that just as the bank must judge the applicant, the applicant should also judge the bank. Some of the elements to look for in a bank are:

   - The size and reputation of the bank. Is it located conveniently? Is it well established in the community?

   - The manner in which the loan officer treats the applicant. Does the loan officer appear to be making judgments about the applicant on the basis of prejudices or preconceived notions? Does the loan officer seem to be trying sincerely to provide the applicant with good advice or to provide solutions for problems which may initially exist? Is the applicant treated in a businesslike and respectful manner?

   - The amount of interest that the bank charges. Although interest rates are fairly standard, there may be some variation among lending institutions. The loan officer may also suggest sources of capital which are lower in interest to supplement money borrowed through traditional commercial lending institutions.

   - The types and range of services which the bank provides in addition to making loans, i.e., checking accounts, financial counseling after the business has started, additional loans for emergencies or expanding the business, and payroll services.

4. Tell the class that the remainder of the unit will be concerned with understanding and learning how to complete the forms required to obtain a loan.

C.2: LOAN OFFICER GUEST SPEAKER

Before the visit of the loan officer, assist the class in formulating questions to ask the loan officer. These questions may either be sent to the guest speaker ahead of time as a guideline for his or her presentation, or they may be used as a basis for a question and answer session at the time of the visit. The major areas for questioning should include:

- What is the single most important thing or characteristic that a loan officer looks for in an application for a small business loan?
- How important is it for a loan applicant to have capital or owner equity to invest in the new business?
- Are some types of businesses more likely than others to receive start-up loans? If so, is the difference a matter of the amount required for start-up or a matter of the likelihood that the business will succeed?
- What are some ways that an individual can obtain owner equity, assuming that he or she cannot save the money from existing income?
- What are some important considerations for the applicant when choosing a bank to do business with?
- How much does the applicant's personal credit rating affect a loan officer's decision to give him or her a small business loan?

C.3: PREPARING A BUSINESS DESCRIPTION

1. Tell the class that the loan officer will want to know exactly what kind of business the entrepreneur intends to start and how the business is to be run. This basic information may influence whether or not the loan is granted. For example, a loan officer may be unwilling to provide a loan to start an auto repair shop when the town already has twenty similar businesses which are not doing well. On the other hand, a good loan officer may also suggest that you re-evaluate your choice of a location or a business and present alternatives.

   In addition, and of great importance, the business description will indicate the extent to which the entrepreneur has planned each step of going into business. The business description should tell the loan officer:

   a. What the business is to be.

   b. What market you intend to serve, the size of your market, and the share that you expect to attract.

   c. Why you believe that you can serve that market better than your competitors (or why you believe that you have no competition for your particular goods or service).

   d. Why you have selected your particular location for your new business.

   e. What your management plans are.

   f. Why you need to secure a loan to begin your business.

   These points are intended as guidelines and each student will want to vary them somewhat. The business description must be written clearly and simply. Remind the students that, as a rule, if they cannot describe the idea clearly and simply, they have not thought it through and the loan officer is likely to refuse a loan because of careless planning.

2. Hand the students a sample business description. Allow them time to read it through.

3. Ask students to choose a business in which they are individually interested. Tell students to write a description of the business in as much detail as possible.

Sample Business Description

The next step in packaging your loan request is to prepare a written description of your business, or idea for a business.

Your description should include information regarding:

- Type of business
- Name of business
- Owner(s) and background(s)
- Product or service you make or sell
- Location of Business
- Other businesses which will be your competitors
- Who your customers will be and the market that exists for your product.
- Your suppliers and terms
- The number of employees you have or plan to hire--immediately and in six months.

I plan to open an auto parts store. Its name will be "Jim's Auto Supplies" and it will specialize in parts for foreign cars. I will be the sole owner of the store.

I plan to locate the store at 6677 Act Street where many car dealers are. At this address there is a store which I can lease for $200.00 per month on a 3 year lease. This store is 40' x 60', has ample space to house the inventory, will not require any remodeling, and has adequate parking space in front and rear.

There is a Johnson's Parts Store four blocks away which might be some competition, but they do not carry foreign car parts. In talking to car dealers and individuals in the Denver area, I have found a real need for this business.

I will have three employees, including myself, working in my store. I have found two mechanics with foreign car experience who have agreed to work for me. I plan to open the store on September 1st, if I can get this loan from the bank.

Adapted from "How to Apply for a Small Business Loan," United Bank of Denver; Denver, Colorado.

C.4: SOURCES AND APPLICATIONS OF CASH

1. Explain that the "sources and applications of cash" Form is simply intended to show the loan officer where the money to start the business will come from and how it will be spent.

2. Point out that there are two basic sources of cash for starting a business venture. These are:

   (1) Money that the entrepreneur has on hand (i.e., savings or assets which may be converted to cash such as stocks and bonds or property which may be sold). This is called Owner or Equity Capital.

   (2) Money which the entrepreneur must borrow from someone or from an institution. This is called Debt Capital. Debt capital is anything which must be repaid on a formal scheduled basis.

3. Tell the class that the loan officer will probably want to know how much of an investment the entrepreneur is willing or able to make in the business. Such an investment is a clue to the individual's confidence in his or her ability to succeed in the new business. Of course, it also reduces the total amount which must be borrowed to start the business and thus saves the borrower interest costs.

4. Ask the class to identify some sources of debt capital. These may include:

   - credit unions
   - savings and loan institutions
   - commercial banks
   - the Small Business Administration
   - friends or relatives who will either lend money outright or who wish to buy shares of the business
   - insurance companies

5. Discuss each of the possible sources with respect to differences in interest rates, payment schedules, and long term association with investors. For example, commercial banks generally charge higher interest rates but provide more services than credit unions; the SBA frequently requires a loan applicant to provide considerable collateral to obtain a loan; savings and loan institutions are legally prohibited from granting business loans, although a person may obtain a short term personal loan and use it to start a business.

6. Explain the term "applications of cash." "Applications" refers to how the start-up money will be spent. These expenditures include initial deposits or payments which must be made for property or equipment, renovation or decoration to property, purchase of equipment required to operate the business, consumable supplies and initial stock inventories which are not bought on credit. Some of these applications will be direct expenditures, such as funds spent for renovation or decoration and consumable supplies. Other applications, however, may be considered to be investments which simply convert capital from a cash form to property. For example, the purchase of an oven for a bakery transforms a cash asset into a property asset which may, if necessary, be resold for cash.

7. Tell the class that applications of cash will necessarily have to be estimated, based on what you know that you will need to start the business and the current market value of each item that must be purchased.

8. Hand out the in-class case study, "Sources and Applications of Cash" and the Worksheet. Read through the problem and the form in class and work through the problem with the students.

   Answers to the in-class case study:

   (1) $650.

   (2) $300.

   (3) $950.

   (4) $120.

   (5) $1,000 for rebuilding and installation and $900 for barber chairs, for a total of $1,900.

   (6) $40, or 4 weeks x $10 per advertisement.

   (7) $75.

   (8) The barber chairs, the sink and dryers, and the barbering tools owned by the brothers.

   (9) The total amount needed ($2,140) less the amount invested ($950) will require them to obtain the balance ($1,190) from the loan.

9. Distribute the homework case study and the blank "Sources and Applications of Cash" Worksheet, to be done outside of class.

Answers to the homework case study:

1. Lucy's owner equity consists of $5,000 in her savings account.
2. She will need a total of $21,500 to expand her business.
3. The debt capital will amount to $16,500.
4. She will spend $18,000 on automobiles.
5. Her direct labor costs will amount to $3,500 in the first month.
6. She will save $720.

IN-CLASS CASE STUDY
SOURCES AND APPLICATIONS OF CASH

After years working as barbers in separate cities, brothers Doug and Peter Palmer have decided to open their own barbershop in the town in which they grew up. They have found a vacant building, formerly a drug store, which appears to be an ideal size and location for the new business. They are planning to spend $10 a week for advertisement in the weekly town paper to attract new customers, since they can reach a large number of readers relatively cheaply this way.

The former drug store will need some refurbishing and the installation of hairdresser sinks and hair dryers. Pete has chosen a contractor who estimates that he can do the entire job for $1,000. The brothers will also need two barber chairs, each of which will run $450. They will not need any additional barbering equipment such as shears and razors since both have a large supply from years past. They will, however, need to purchase consumable supplies, such as shampoo and hair conditioner from a wholesaler who does not extend credit to new customers. Therefore, they will need at least $75 for supplies to start the business. They will also need $120 for the first month's rent.

Doug has saved $500 which he expects to invest in the business. Pete has only $150 to invest at this time, but his wife would like to invest $300 of her own money in the business.

The brothers plan to obtain a business loan for the balance of capital needed to begin their business. They will go to a local savings and loan bank to apply for the loan.

Questions:

1. How much cash on hand can the brothers invest in their business?
2. How much can they obtain from additional investors?
3. What is the total amount of owner equity available to be invested in the business?
4. How much will be needed for the first month's rent?
5. How much will be needed to convert the former drug store into a barber shop?
6. How much will they need to spend for the first month's advertising in the weekly paper?

7. How much will they need to invest in consumable supplies?

8. Which of these expenditures will continue to be assets of the business?

9. What is the total amount the Parker Brothers will need to open their shop, aside from what they have saved? What will their debt capital be?

WORKSHEET

SOURCES AND APPLICATIONS OF CASH

Date________________________

Sources of Cash

Owner Investment (money not borrowed through commercial lending institution)

Cash on hand $______________________

Gifts or personal loans ______________________

Investment by others ______________________

Community Development Grant ______________________

Debt Capital

Bank business loan ______________________

Personal loan ______________________

Credit Union ______________________

SBA loan ______________________

Other loans ______________________

Total Sources of Cash ____________

Applications of Cash

Initial investment in building or property ______________________

Repairs and renovations ______________________

Initial inventory ______________________

Initial advertising or promotion ______________________

Equipment ______________________

Other ______________________

Total Applications of Cash ____________

HOMEWORK CASE STUDY
SOURCES AND APPLICATIONS OF CASH

Student Instructions

Read through the case study carefully. Examine each part of the "Sources and Applications of Cash" form. Then re-read the case study, filling in the appropriate blanks with your answers. When the form has been completed, answer the questions following the story on the basis of knowledge of sound business practices.

Last year, Lucy Gaines started a delivery service which was designed to provide businesses with a quick, reliable transport of documents and materials to the airport and to pick up special orders for them at the airport. Her service has been outstandingly successful and she is planning to expand the size of the business. She wants to purchase three more cars, hire additional drivers, and subscribe to a 24-hour answering service that will relay requests for service all day and night.

At the present time, Lucy has a station wagon which has served as the business' only carrier. She plans to buy one more station wagon for approximately $7,000 and two small cars, suitable for small deliveries, which will be more economical to operate. Each of these will cost approximately $5,500. She will also need to cover payroll for five new drivers who will be hired. Each will be paid a monthly salary of $700.

Lucy has $5,000 in her savings account, but she will need to borrow money for the major portion of her expenses. She wants, if possible, to pay cash for the new cars to avoid the 10% interest rate for payment on time. To do this, she will try to obtain a short-term 90 day loan at 6% for purchase of the cars and a 30 day loan at 5% to meet the first month's payroll. She will handle the operating expenses of the expanded business (i.e., gas, oil, minor repairs) out of a business emergency fund which she has maintained since the start of the business.

1. What are Lucy's sources of equity capital?

2. What is the total amount Lucy will need in the first month to expand her business, including both her equity capital and money she will borrow?

3. How much of the total amount will be debt equity?

4. How much will she spend on automobiles?

5. How much will be spent on direct labor costs in the first month (i.e., meeting the first month's payroll?

6. How much will Lucy save if she obtains an $18,000 loan at 6% rather than paying 10% interest?

Decision Questions

1. Do you think Lucy's plan to expand is realistic, based on her previous experience and the cash she has on hand? Justify your decision.

2. Do you think that the loan officer will grant her the two short term loans, based on her experience and equity capital? Justify your decision and list some of the factors which the loan officer may consider.

3. If you do not agree with Lucy's plan for expansion, describe what you would do if you were she.

WORKSHEET
SOURCES AND APPLICATIONS OF CASH

Date ______________________

Sources of Cash

Owner Investment (money not borrowed through commercial lending institution)

Cash on hand $______________________

Gifts or personal loans ______________________

Investment by others ______________________

Community Development Grant ______________________

Debt Capital

Bank business loan ______________________

Personal loan ______________________

Credit Union ______________________

SBA loan ______________________

Other loans ______________________

Total Sources of Cash ____________

Applications of Cash

Initial investment in building or property ______________________

Repairs and renovations ______________________

Initial inventory ______________________

Initial advertising or promotion ______________________

Equipment ______________________

Other ______________________

Total Applications of Cash ____________

C.5 PREPARING A BALANCE SHEET

1. Explain that a balance sheet is intended to show how the assets, liabilities, and net worth of a company are distributed at a given time. A balance sheet, in reality, may be used to show this distribution in three different ways:

    (a) A start-up balance sheet would list the assets, liabilities, and capital that represent the financial position of the business on the day it opens. This is the type of balance sheet which should be prepared for the loan application package.

    (b) An actual balance sheet lists assets, liabilities, and capital or net worth of a company after it has been open for some time. This type of balance sheet is based on the actual distribution of funding elements.

    (c) A pro-forma (or projected) balance sheet may be developed based on plans for future business. This type of balance sheet is a best estimate of the funding elements of the business at a future time.

    A visual presentation of the three types of balance sheet would be:

(a) START-UP NOW	(b) ACTUAL AFTER THE BUSINESS OPENS	(c) PRO FORMA PLAN FOR FUTURE

2. Explain that the figures appearing on the balance sheet will reflect the items specified in Sources and Applications of Cash in the early days of the business, since many of the items listed as Applications will be transformed to non-cash assets. Examples of these are major equipment purchased, stock inventories, or property purchased. As time passes and the company generates more and more revenue and debts are repaid, the assets will reflect money that has been earned by the business rather than money borrowed for start-up. One way to think about assets is to consider them as company resources, whether money or things worth money.

3. Point out that the balance sheet will need two supporting documents:

    (1) A capital equipment list which details all the equipment owned by the company.

    (2) A detail balance sheet which specifies all the company's assets by type of asset and all the company's liabilities by type of liability.

Distribute copies of the "capital equipment list" and the "detail balance sheet." Ask the class to provide different examples under each category of equipment, assets and liabilities for different types of businesses. Point out the differences between the amount of money needed by businesses that require expensive equipment to start up and ones that don't. For example, a factory, a bakery, a restaurant, or a cotton mill will require heavier expenditures for equipment than retail businesses, office cleaning services, delivery services, or a tutorial service.

4. Point out that the three forms, the capital equipment list, the detail balance sheet, and the balance sheet are closely related to one another The development of the final balance sheet is a step-by-step process, beginning with the information required by the capital equipment list, adding the information required by the detail balance sheet, and finally ending with the aggregated totals required on the balance sheet.

5. Note that the balance sheet is the formal statement of the business' net worth. The capital equipment list and the detail balance sheet are simply working papers to help arrive at the final figures which appear on the balance sheet. The logic of the balance sheet is to document that the assets minus the liabilities and the owner equity--or what is left after subtracting liabilities from assets--do in fact balance.

6. Note that the categories presented on the balance sheet are standard and do not vary by type of business. The categories for the capital equipment and the detail balance sheet will vary to some extent, depending on the type of business. For example, some businesses may not use trucks or cars, as listed under fixed assets on the sample detail balance sheet. Some businesses may have different loan arrangements than those presented under "long term liabilities." The major categories, however, will remain the same regardless of differences in detail. For example, the nature of a long term loan may vary from one business to another, but the loan will always be listed under long term liabilities if it is to be repaid over time, regardless of the source of the loan.

7. Distribute the In-Class case study, "Balance Sheet," and a blank balance sheet form. Go through the terms that are used as entries on the form. These include:

   Current assets: what the business now has or owns, even if it is not in hand or has not been paid for. Current assets may be expected to turn over quickly.

   -- Cash: the money in hand that the business has
   -- Accounts receivable: money owed to the business from credit extended
   -- Inventory: merchandise or items that the business has either bought or obtained on credit.

- Fixed assets: what the business has invested in as a relatively permanent fixture. Fixed assets may have been obtained on credit and are not yet paid for.

- Liabilities: what the business owes to others.

  -- Trade debt: the accounts payable, or the money the business owes to vendors for supplies or inventory
  -- Bank debt: the repayment of a bank loan.
  -- Other debt: ongoing operating expenses which do not fall into either of the above categories (i.e., rent, utilities, salaries or wages).

- Owner equity: the value of the assets after liabilities have been subtracted. Some owner equity may be in the form of cash; other types may be equipment, merchandise, property or anything else that may be converted to cash.

8. Read through the case study in class. Go through the blank form It may be useful to duplicate the balance sheet on the board. Work through the form, using the information contained in the study. Use the decision questions at the end of the case study as discussion points.

Answers to the In-Class Case study questions:

1. $2,500.
2. $1,900.
3. $1,900.
4. $6,300.
5. $ 440.
6. $6,740.
7. $ 200.
8. $4,000.
9. $4,200
10. $2,540.
11. $6,740.; the total assets. The owner equity and the liabilities should always balance or equal the total assets.

9. Distribute the balance sheet homework case study to be done outside of class.

Answers to these questions are:

1. The cash assets of Greenhouse One are $3,300.

2. The other current and fixed assets of the business are:

Current assets:

accounts receivable	0
inventory	
tropical plants	650
vases, pots, flowers, etc.	1,500
Total Current Assets	$ 2,150

Fixed assets:

refrigeration unit	$3,500
glass display cases	1,800
used truck	2,000
optional: property improvement through renovation	400
Total Fixed Assets	$7,700

Cash:	3,300
Current:	2,150
Fixed:	7,700

3. Total Assets $13,250

4. The trade debt is $650

5. The bank debt is $8,000.

6. The total liabilities for the business are $8,650.

7. The duPont's equity is currently $4,500.

8. The total liabilities and equity for the business is $13,150.

9. The total of the liabilities and equity equals the total assets.

$8,650 (liability) + 4,500 (equity) = $13,150 (assets)

SAMPLE CAPITAL EQUIPMENT LIST I

Lincoln Inn Restaurant

Major Equipment and Accessories		Current Market Value
1 Kenmore oven		$4,500
1 Microwave oven		2,000
1 Westinghouse 8-burner stove		2,000
2 Salton hot plate tables @ $500 each		1,000
1 Bendix standing freezer		700
1 General Electric air conditioner 50,000 BTUs		6,000
1 laminated counter and cabinets		7,000
45 counter chairs @ $40 each		1,800
20 tables @ $140 each		2,800
80 dining style chairs @ $26 each		2,080
	Total	$29,880
Other Equipment and Fixed Supplies		
400 white linen napkins		400
60 linen table clothes		180
1000 drinking glasses @ $25 per 100		250
Silverware and china		2,000
	Total	$2,830
Grand Total		$32,710

SAMPLE CAPITAL EQUIPMENT LIST II

Murray's Cleaning Service

Major Equipment and Accessories		Current Market Value
1 PowerVac vacuum cleaner		$450
1 Roto floor polisher		75
1 used truck		1,500
	Total	$2,025

SAMPLE DETAIL BALANCE SHEET

Murray's Cleaning Service

ASSETS	
Cash	$ 562
Accounts receivable:	
(1) Skyline Motel	625
(2) Gillis Real Estate	212
(3) Dowel Inc.	400
Inventory, supplies	
(1) 100 qts. wax	60
(2) 25 lambs wool pads	30
(3) 50 gal. heavy duty cleaner	30
Total Assets	$1,919
LIABILITIES	
Trade debts:	
(1) Monroe Wholesale Inc.	65
(2) Edgar's Autobody Shop	150
Bank Debts:	
(1) First Savings and Loan	350
Total Liabilities	$565

Owner's Equity: Assets $1,919 less Liabilities $565 = $1,354

IN-CLASS CASE STUDY
BALANCE SHEET

Domenic Ferrara is considering the purchase of a leather shop which is being sold because the owner, Ned Felt, is moving out of state. Ned opened the craft and retail shop five years ago, with an initial investment of $1,000. Last year he obtained a $5,000 loan to expand the business in a different location. Now, in addition to his workshop and store, he distributes his leather products to major retail outlets throughout the state.

At the present time, Ned's company has $2,500 in a corporate account. He is owed $1,500 by credit customers (payment date uncertain) and a major retail chain will pay their $400 bill at the end of the week. Ned also has $600 worth of goods at his shop and in stores across town, and another $1,300 worth of raw materials, such as leather, hardware, and thread in his storeroom. He also has a machine for sewing leather and a cutting tool, worth $350 and $90 respectively.

Ned has repaid $1,000 of last year's business expansion loan and would expect Domenic to assume the rest of the debt if he buys the business. He has not paid for $200 of the raw materials which he has on hand and does not expect to repay for some time since his creditors are not pressing; Domenic would also be expected to assume this debt.

Case Problem Questions

1. How much cash on hand does the business have at this time?
2. What are the company's accounts receivable?
3. What is the total worth of Domenic's inventory, including raw materials and finished products in the shop?
4. What are the company's total current assets?
5. What are the company's fixed assets worth?
6. What are the company's total assets, including current and fixed?
7. What is Domenic's trade debt?
8. What is his remaining bank debt?
9. What are his total current liabilities?
10. What is Domenic's equity (or what is left over after subtracting the liabilities from the assets)?
11. If the liabilities and the owner equity, above, are added together, what is the total? What is the total equal to?

WORKSHEET
BALANCE SHEET

Date ______________________

Assets	**Liabilities**
Current Assets	Trade Debt $ ______
Cash $ ______	Bank Debt $ ______
Accounts Receivable $ ______	Other Debt $ ______
Inventory $ ______	
Total Current Assets $ ______	Total Liabilities $ ______
Fixed Assets	Owner's Equity $ ______
Property $ ______	
Equipment $ ______	
Total Fixed Assets $ ______	
TOTAL ASSETS $ ______	TOTAL LIABILITIES AND OWNER'S EQUITY $ ______

HOMEWORK CASE STUDY
BALANCE SHEET

Instructions

Read the case study carefully. Review the blank balance sheet form. Work through the case study, entering the appropriate figures in each space. Answer the questions following the case problem.

* * * * * * * * * * * * * *

Ed and Christine duPont plan to open their florist shop, Greenhouse One, next week. To supplement their own $3,000 investment in the business, they have obtained an SBA loan for $8,000 to cover their initial start-up costs. The start-up capital has been spent on: a $400 remodeling job which has made the building more convenient for a florist shop; $3,500 for a glass-front refrigeration unit to keep flowers fresh; $2,000 for a used delivery truck; and $1,800 for a glass case to display the flower arrangements that will be available. Of the remaining $3,300, $1,500 has been reserved for initial inventory such as pots, vases, plants and flowers. Everything else will be maintained for emergencies and ongoing expenses.

The duPonts plan to repay half of the original SBA loan by the end of the first year. This is based on their expectation of taking in an average of $2,000 each month of the business' first year. In addition to walk-in customers, business clients will also be served: the duPonts have already obtained an agreement with a large hotel for supplying arrangements for specific occasions. The duPonts have based their estimate of business volume by asking other florists about their first year's experience.

Ed has arranged with one supplier for an immediate delivery of tropical plants to coincide with the opening of the shop. The supplier has offered to let the duPonts have the merchandise on credit, so even before the business has opened, the shop has a trade debt of $650 for the tropical plants. Since Ed and Christine have invested everything they have in the business, they are anxious that the business be a success. Ed has prepared a balance sheet to determine exactly where the business stands financially at the time the shop opens.

Homework Questions:

1. What are the cash assets of Greenhouse One?

2. What are other current and fixed assets of the business? List each one by type of asset.

3. What are the total assets of the business?

4. What is the duPonts' trade debt at the present time?

5. What is the bank debt before the business has started?

6. What are the total liabilities for the business?

7. What is the duPonts' equity in Greenhouse One at the time of its opening?

8. What are the total equity and liabilities for the business?

9. How does the total of equity and liabilities compare with the total assets for the business?

Decision Questions:

1. Based on what you understand about credit and cash transactions, do you think it was wise of Ed to take advantage of the supplier's offer of credit? Explain why you do or do not agree with his decision.

2. Does the duPonts' use of their initial start-up capital seem sensible to you? Do any of their expenditures appear to be very heavy for a starting business?

WORKSHEET
BALANCE SHEET

Date ______________________

Assets

Current Assets

Cash $ ____________________

Accounts Receivable $ _____

Inventory $ ______________

Total Current Assets $ ________

Fixed Assets

Property $ _______________

Equipment $ ______________

Total Fixed Assets $ ___________

TOTAL ASSETS $ ________________

Liabilities

Trade Debt $ __________________

Bank Debt $ __________________

Other Debt $ __________________

Total Liabilities $ ____________

Owner's Equity $ ______________

TOTAL LIABILITIES AND
OWNER'S EQUITY $ ________________

C.6. INCOME STATEMENT AND PROJECTED INCOME STATEMENT

1. Explain that the income statement is intended to show how much a business makes or loses during each year, or what the business' profits and losses were. It is an important document to save, because income statements show the direction the business is taking from year to year and thus serve as an excellent predictor of how the business will do in the future. For example, if the owner of an existing business wishes to expand or sell the business, the income statement would provide documentation about whether the business' profits had grown over time.

2. An income statement may be compared to the balance sheet in the following manner: the balance sheet is a record of the business' financial situation at a single point in time, while the income statement shows the financial situation over a period of time. A graphic illustration of this relationship can be shown by the diagram below.

Start-Up Balance Sheet (Still photo) — End of Year 1 Balance Sheet (Still photo)

Income Statement
(a motion picture)

3. For purposes of obtaining a loan, the applicant will use the income statment format to project what the business will earn or lose in the first year of business. This is called a projected income statment. The only real difference is that an income statment shows sales, operating expenses, profits or losses for several years of an existing business, while a projected income statement shows each of these elements for the first month or so of the new business and for the entire first year. This breakdown will help the new businessperson see how start-up costs will affect profits or losses at the beginning of the business should begin to make a profit.

4. Distribute the samples of an income statement and a projected income statement to show students the difference between the two forms. Note that the differences are:

   (a) The projected income statement will be based on best estimates which result from research (i.e., talking to others in the business and to small business consultants) and from planning. The income statement will be based on real dollar profits and expenses which accrue during the years of the business.

(b) The time frame for the projected income statement is one year, broken down by month. This is to help the starting businessperson to analyze projected profits and expenses by small time segments, which should result in a more reliable estimate for the first year. The income statement, on the other hand, will provide an indication of change between business years.

5. Distribute the in-class projected income statement case study and a blank projected income statement form to the class. Read through the problem. Fill in the form with the assistance of the class, using the questions following the case study as a guide

Answers to the in-class case study:

- For sales:

  1. $100 per month charge X 20 customers = $2,000.
  2. $100 charge X 30 customers = $3,000.
  3. $35,000.

- For cost of goods sold:

  4. $10 cost X 20 customers = $200
  5. $10 cost X 30 customers = $300
  6. 30 customers X $10 for goods X 11 months = $3,300; 20 customers X $10 goods X 1 month = $200; total for the year = $3,500.

- For gross profit:

  7. $1,800 and $2,700 respectively
  8. $31,500.

- For operating expenses:

  9. $3.50 per hour for 40 hours per month X 2 employees = $280; for 4 employees in the second month the expense will be $560; for the entire year salaries will be $6,440.

  10. $1,000 per month and $12,000 for the year.

  11. Insurance for the year is payable in the first month. The cost of insurance will appear in the first month's operating expenses ($100) and in the column for the entire year ($100)

    12. $60 per month, or $720 per year.

    13. $100 per month, or $1,200 per year.

    14. Operating expenses excluding supplies, for the first month are projected to be $1,540, for the second month $1,720, and for the entire year $23,960.

- Determining Net Profit:

    15. In the first month there will be a loss of $3,040; the second month will show a profit of $1,280; the total profit for the year will be $11,040.

    16. Because of the heavy start-up expenses for supplies and insurance, which were payable when the business started.

6. Distribute the projected income statement homework case study and a blank form, to be done out of class. Answers:

    1. If Nancy's plans are accurate, she will make $1,200 in sales in the first month, $2,400 in sales in the second month, and $27,600 for the entire year.

    2. The cost of the chemical supplies sold will be $45 in the first month, $90 in the second month and $1,035 for the entire year.

    3. The gross profit for the first month will be $1,155, the second month, $2,310, and for the entire year, $26,565.

    4. In the first month Nancy will spend $24 on her helper's salary and the same amount for each month thereafter. The total expense for the salary will be $288.

    5. Nancy will draw $400 in salary per month, for an annual withdrawal of $4,800.

    6. The rent will cost $150 per month or a total of $1,800 for the entire year.

    7. Nancy will spend $1,000 for advertising the first month and nothing thereafter. The expenditure for advertising, therefore, will be $1,000 for the entire year.

    8. Nancy will spend $280 for supplies in the first month ($175 for a two-month supply of chemicals, $75 for the first of two brushes needed for the year, and $30 for postage and supplies). In the second month she will only expend $30 for postage and supplies, since she will still be using the chemicals and brush from the first month. For the entire year she will spend $1,560; 6 orders of chemicals at $175 each, 2 brushes at $75 each, and $30 for supplies and postage for each of the 12 months of the first year.

9. Nancy's tool operating expenses including all supplies, will be $1,854 for the first month, $6-4 for the second month, and $9,449 for the entire year.

10. In the first month, Nancy will show a loss of $654. The second month, however, she will show a profit of $1,706. For the entire year, she will show a profit of $18,152.

WORKSHEET

PROJECTED INCOME STATEMENT

DATE: From ____________________

To ____________________

	1st Month	2nd Month	1st Year
Sales	$		$
Costs of Goods Sold	$		$
Gross Profit (Sales Less Cost of Goods Sold)	$		$
Operating Expenses:			
Salaries & Wages (excluding owner's withdrawals)			
Owner's Salary and Withdrawals			
Rent			
Advertising & Promotion			
Taxes & Licenses			
Insurance			
Depreciation			
Supplies			
Repairs & Maintenance			
Professional Services (legal, accounting)			
Other Expenses			
TOTAL OPERATING EXPENSES	$		$
Net Profit Before Income Taxes and Loan Payment (Gross Profit Less Operating Expenses)	$		$

IN-CLASS CASE STUDY

PROJECTED INCOME STATEMENT

Sam and Bess Greenberg want to start a landscape gardening service. They have determined that there is a market for this type of service in an upper income housing development nearby which is selling homes without landscaping. In fact, before starting the business they solicited considerable interest from the new homeowners and have obtained twenty firm contracts for the design and upkeep of gardens, which call for 12 equal payments over the year. They are confident, furthermore, that they can obtain ten new contracts in the second month of business, but they do not want to expand beyond that in their initial year of business. Sam and Bess are counting on the fact that the area's booming housing starts will support their business for many years to come.

The Greenbergs have $500 to invest in the business. They will spend the entire amount on a cultivator and a gas driven power mower which are needed to supply the services promised. They must therefore obtain a loan to cover their operating expenses until the business begins to show a profit. In order to determine what their potential profits and losses can be expected to be, they are preparing a projected income statement for the loan officer.

The major expenses for starting the business will be providing for their own income, meeting a payroll of part-time employees and especially the purchase of supplies, such as rakes, hoes, shovels, fertilizer, and topsoil. They plan to bill customers monthly at $75 per month for labor and an additional $25 per month for supplies which are used in each garden.

Bess' uncle has agreed to sell them the necessary supplies at cost for $3,500, providing that they will purchase enough to last them an entire year and they will pay cash for them. The Greenbergs have agreed to this proposition since it represents a considerable saving over other dealers' charges.

After some discussion, the Greenbergs have decided that they will need the part-time help of two other people to service the contracts which they already have. When the two additional contracts have been signed at the end of the first month, they will hire two more people for part-time work. They expect each employee to work 10 hours a week or 40 hours a month at an hourly rate of $3.50. The Greenbergs themselves will withdraw a total of $1,000 per month for salaries for both of them. Bess has contacted an accountant who will do much of the monthly record keeping after the business has started. She will pay her a monthly retainer of $100 for this service.

The Greenbergs will also obtain theft and vandalism insurance on their newly purchased heavy equipment for $100 a year, payable in advance. They are also allowing for a $6- a month repair and maintenance fund.

In preparing the projected income statement, Sam has decided to estimate profits and operating expenses for the first two months of the business and for the total year. These figures, he feels, will provide a good basis for estimating what their profits and losses may be early in the business and overall throughout the course of the first year.

PROJECTED INCOME STATEMENT QUESTIONS

For Sales:

1. If the Willows charge customers $75 per month for services and an additional $25 per month for supplies used, what will be their total sales for the first month?

2. What will be their sales for the second month of business?

3. What will be their total sales figure for the first year? ($35,000)

For costs of goods sold:

4. Assuming that the cost of the garden supplies is prorated evenly at $10 cost for each customer served, how much will the cost of the goods sold be in the first month of the business?

5. Using the same $10 cost per customer figure, how much will the cost of goods sold amount to in the second month of the business?

6. What will the cost of goods sold be for the entire first year, assuming 20 customers for the first month and 30 customers for the succeeding 11 months?

For gross profit:

7. What will be their gross profit for the first and second months?

8. What will their gross profit be for the entire year?

For operating expenses:

9. What will be the salaries and wages for the first month, the second month, and the entire year, excluding the Greenbergs' income?

10. What will the owners' salaries or withdrawals be for the first and second months and for the entire year?

11. What is the cost of the insurance and when is it payable?

12. How much maintenance and repair will be projected for the first and second months and the entire year?

13. What will be the monthly cost of the accountant? What will be the entire cost for the first year?

14. What are the total operating expenses excluding costs of supplies, for the first month, the second month, and for the first year?

Determining net profit:

15. What will be the net profit or loss for the first month, the second month, and the entire year?

16. Why will the business suffer a lost the first month of operation?

WORKSHEET

PROJECTED INCOME STATEMENT

DATE: From________________

To__________________

	1st Month	2nd Month	1st Year
Sales	$		$
Costs of Goods Sold	$		$
Gross Profit (Sales Less Cost of Goods Sold)	$		$
Operating Expenses:			
Salaries & Wages (excluding owner's withdrawals)			
Owner's Salary and Withdrawals			
Rent			
Advertising & Promotion			
Taxes & Licenses			
Insurance			
Depreciation			
Supplies			
Repairs & Maintenance			
Professional Services (legal, accounting)			
Other Expenses			
TOTAL OPERATING EXPENSES	$		$
Net Profit Before Income Taxes and Loan Payment (Gross Profit Less Operating Expenses)	$		$

HOMEWORK CASE STUDY
PROJECTED INCOME STATEMENT

Student Instructions: Read through the case study carefully. Review the projected income statement form. Using the figures presented in the problem, fill in the appropriate blanks on the form. Answer the questions following the case study. There are no absolutely correct or incorrect answers to the Decision Questions, but you must justify your response by explaining why you made your decisions.

* * * * * * * * * * * * * * * *

Nancy Martin is planning to start a swimming pool cleaning service for outdoor residential pools. Although she can use the truck she currently owns for transportation and carrying the necessary equipment and supplies to each home, she wants to maintain a small office for a business mailing address and telephone answering service. She has found a room in a suburban area which will cost $150 per month to rent. Because Nancy's customers won't be coming into the office, it will be sufficient.

Nancy plans to hire her cousin as a part-time assistant at $3.00 an hour. She expects to need help for an eight hour day each Saturday. Nancy will withdraw $400 per month from the company for her own salary for the first year.

Nancy has already invested $350 in a pool vacuum cleaner and a leaf skimmer. She intends to purchase her major chemical supplies, such as chlorine and algaecide in 100 cases of gallon bottles. This supply will last (on an average) for two months. Each case will cost her $1.00. She will also need to purchase a tile scrubber for $75; this brush can be expected to last for 6 months. She figures that the cost of chemical supplies will be about $3.00 per pool each month. She will also need office supplies for billing and postage to send customers monthly bills for her services which will cost about $30.00 per month, total.

The charge to the customer will be $80 per month for a weekly visit for pool cleaning. Nancy has already got 15 pool owners interested in the service and she expects to double this number in the second month, through extensive advertising with leaflets and through the newspaper. She has planned to allow $1,000 for advertising in the first month.

Nancy is preparing to apply for an SBA loan and must therefore fill out a projected income statement for the first two months of business and for the entire year.

Homework Questions for Projected Income Statement:
(For all questions, figure 4 weeks per month.)

1. If Nancy's sales are as planned, (i.e., she begins with 15 contracts, expands to 30 by the second month, and maintains the 30 over the first year), what will her sales be for the first month, for the second month and for the entire year?

2. What will be the cost of the chemical supplies sold or used in the course of the first month, the second month, and the entire first year?

3. What will Nancy's gross profit be at the end of the first month, the second month, and at the end of the first year?

4. What will be the expenditure for Nancy's employee's salary in the first month, the second month, and over the course of the first year?

5. What will Nancy's withdrawal for salary amount to in the first and second months and for the first year?

6. What will be the rent for the first and second months and for the entire first year?

7. What will be the expenditure for advertising in the first month, and the second month, and for the entire year?

8. Considering all the supplies that Nancy must use to conduct her business, what will be the expenditure for chemicals for pool maintenance, the expenditures for office supplies and postage, and the expenditures for miscellaneous items such as brooms be for the first and second months and for the entire year?

9. What will be Nancy's total operating expenses, including supplies, for the first month, the second month, and for the entire year?

10. What will be her net profit or loss at the end of the first month, the second month, and for the entire year?

Decision questions:

1. Assuming that Nancy's expectations are realized at the end of the first year, what are her options for using some of the profit?

2. Do you think that it would be to Nancy's advantage to expand her business beyond the 30 customers she has originally planned for? Justify your response.

WORKSHEET

PROJECTED INCOME STATEMENT

DATE: From________________

To________________

	1st Month	2nd Month	1st Year
Sales	$		$
Costs of Goods Sold	$		$
Gross Profit (Sales Less Cost of Goods Sold)	$		$
Operating Expenses:			
Salaries & Wages (excluding owner's withdrawals)			
Owner's Salary and Withdrawals			
Rent			
Advertising & Promotion			
Taxes & Licenses			
Insurance			
Depreciation			
Supplies			
Repairs & Maintenance			
Professional Services (legal, accounting)			
Other Expenses			
TOTAL OPERATING EXPENSES	$		$
Net Profit Before Income Taxes and Loan Payment (Gross Profit Less Operating Expenses)	$		$

C.7: CASH FLOW STATEMENT

1. Explain that the cash flow statement is intended to show how money comes into the business and how it goes out (is spent). This statement is only concerned with CASH, not with property, other fixed assets, or credit. It is useful to show, in detail, where cash is coming into the business and how it is being spent. It essentially helps the business person to account for cash. It also will show quickly whether the money coming into the business is sufficient to cover expenses. For example, a businessperson may see that prices should be raised (or volume increased) or expenses cut for the business to survive.

2. Note that the cash flow statement is somewhat like a very detailed balance sheet, since it traces the direction of income versus out-flow of funds during the course of the business year. Explain that the cash flow statement differs from the income statement because it is not concerned with anything obtained on credit. For example, where merchandise has been bought on credit and subsequently sold, the revenue obtained by the sale appears on the cash flow statement but the debt incurred by the credit does not. When the business is billed for the merchandise, and the bill is paid, the amount of payment will appear on the cash flow statement as an expenditure for debts. For this reason, the business cannot depend on the cash flow statement alone, since it does not account for debts incurred through credit.

   For example, a small grocer may have a high (limit) of credit and obtain thousands of dollars worth of foodstuffs on credit. If the grocer does not pay his bills regularly, he or she may find that the cash flow statement shows a great deal of cash on hand which is misleading, since some of that cash is actually owed to the grocer's suppliers. If, on the basis of the cash flow statement, the grocer decided that he or she could afford to withdraw more cash for personal salary, expand the business, improve the property, etc., he or she may find that there is not enough cash left over to pay the creditors. The exception to this warning is that businesses which operate almost entirely on a cash basis can rely much more on the cash flow statement.

3. Point out that the categories for revenues and expenditures will vary somewhat depending on the type of business.

4. Indicate that a cash flow statement is prepared at monthly or quarterly intervals, depending on the type of business. Those with a high volume and many sources of revenue and expenditures would need to prepare one fairly often to keep track of where the money is coming from and where it is going.

5. Distribute the cash flow statement. Go over it carefully since it is somewhat lengthy and may initially look confusing to some students. When the form has been examined, distribute and read through the in-class

case study. With the assistance of the class, complete the cash flow statement, using the figures presented in the problem. The questions following the case problem may be used to generate class discussion.

Answers to the in-class study questions:

- Revenues

1. The $3,000 initial investment made by the Hobbits may be considered "cash on hand," since it is analogous to "cash on hand from previous accounting period."
2. There is none, since there have been no prior period sales.
3. $4,560.
4. $75 for the sale of the old generator.
5. $5,000 from the credit union.
6. An investment of $2,500 from Ed's parents.
7. $15,135.

- Expenses

8. Adding the first purchase of $3,200 and their more recent purchase of $2,600 a total of $5,800 has been spent for inventory in the current accounting period.
9. $4,000.
10. There are no fringe benefits.
11. $485.
12. The current expense for insurance is $550 at the new insurance rate. This is the total annual payment, however, and therefore will not appear in the next two accounting period cash flow statements, unless the Hobbits choose to increase their insurance again.
13. $56 plus $168 = $224.
14. $200 per month loan repayment plus $300 rent x 4 months in the accounting period = $2,000.
15. A total of $1,280
16. $228
17. $14,567

- Cash at end of period

  18. Subtracting expenses from cash available, the amount is $568.

6. Distribute the homework cash flow statement case study and the blank form for completion out of class. Answers:

   1. $568.
   2. $10,500.
   3. They received $175 from the sale of the glass display case.
   4. They received a $3,000 gift from Lesley's aunt.
   5. The total cash available in the second accounting period was $14,243.
   6. The total cost of inventory for the second accounting period was $4,100.
   7. The salary withdrawals were $900 per month x 4 months in the accounting period = $3,600.
   8. The cash register cost $300.
   9. The Hobbits' car insurance came to $285.
   10. The utilities were $56 for the telephone and $168 for light and heat; total: $224.
   11. They paid rent ($300), the bank debt ($200) and payments on repairs to the building ($25) in each of the months of the second accounting period. The total amount spent on principal and interest was $2,100.
   12. $192 was spent on transportation.
   13. The Hobbits' personal income tax amounted to $1,152.
   14. The sales tax was $525.
   15. The total expenditures for the second accounting period were $12,478.
   16. The total cash left at the end of the accounting period is $1,765.
   17. No, the car is a fixed asset (property); it is not cash until they sell it.

18. Improvement to property may be termed an asset, since it increases the value of whatever has been improved. But it is not cash and therefore is not revenue. The entire expense of renovation is not listed because some of it was obtained on credit. As the Hobbits pay their bill over time, it will then be put down as an expense; at present it is a delayed expense.

IN-CLASS CASE STUDY
CASH FLOW STATEMENT

Four months ago, Ed and Lesley Hobbit started the Hobbit's Hanger, a used clothing store which has attracted an increasing amount of business. Part of this increased volume is the suitability of the location--close to a college campus--and part is due to their effort to provide "quality" antique clothing at the lowest possible price for their customers. They are now preparing their first cash flow statement to see how well the business is doing, whether their pricing policy is sound, and if they can withdraw a bit more salary from the business each month.

Since their own investment capital amounted to only $3,000, Ed and Lesley obtained a $5,000 loan from a local credit union to start the business. They have agreed to repay the loan at $200 per month, including principal and interest. Ed's parents have also invested $2,500 in the business to help the young couple off to a secure start. On the advice of a friend who is an accountant, they have decided to operate on a "cash only" basis (money and checks, but not credit cards or charge accounts), at least for the first year, so they will know how the business stands financially on a day-to-day basis. This means that they pay cash for all purchases they make and they require their customers to pay cash for all merchandise bought. Therefore, since all the merchandise sold since the start of the business has been cash, the Hobbits know that their total sales since start-up have been $4,560.

When the Hobbits rented their small store at $300 per month, they were willing to spend large amounts of their limited start-up capital on redecoration. When they were cleaning the store, before opening the business, they found an old generator in the back room. No one needed it, so Ed sold it to a local contractor for $75. Last month, they felt the business was secure enough to invest at least some money in redecoration, so Lesley found several glass counters and display cases to show off the merchandise to its best advantage. These she bought for a total of $485 and she and Ed installed them by themselves.

A week ago, the Hobbits bought their first new inventory for $2,600 since the start of the business. None of the new inventory has yet been sold. The initial inventory has been purchased for $3,200. The most recent merchandise was a variety of antique clothing and jewelry which became available through an estate sale. To protect the new redecorations and recent acquisition of inventory, they have increased the amount of insurance which they carry on the business. As a result, Ed recently paid an additional $200 to the initial annual insurance premium of $350.

The Hobbits do not currently feel that they need additional employees. They do, however, draw a single joint salary of $1,000 per month to meet their own living expenses. In fact, one reason they are anxious to prepare the cash flow statement is to see whether they are drawing too much salary or whether their cash reserve will justify an increase in their salary. At an income level of $500 apiece (or $1,000 together), they have paid $1,280 in federal taxes and state taxes. They must also account for payment of state sales taxes on the merchandise which they sell. Since their total sales amount to $4,560 to date, they are responsible for payment of $228 in sales taxes.

Upkeep on the shop has proven to be about as expected. Since the business has opened, the telephone bill has totaled $56.00 and the utilities, such as heat and light have amounted to $168.00 They hope that the cash flow statement will also tell them whether these costs are affordable.

In determining the cash received and expended during the first four months of the business, the Hobbits will be required to multiply some expenses by the number of months the accounting period covers (i.e., four months); others will be already totalled for the four-month period.

IN-CLASS EXERCISE

COMPLETING A CASH FLOW STATEMENT

Revenues

1. How much will "cash on hand from previous accounting period" amount to?
2. What is the cash received from prior period sales?
3. What does "cash received from current sales" amount to?
4. What does "cash received from assets sold" amount to?
5. What amount may be entered as "cash received from loans"? From what source?
6. How much cash has been received from other sources?
7. What is the total cash amount that has been available for the first accounting?

Expenses

8. How much did "new inventory purchased" cost the Hobbits?
9. For the first four months, what has been the total expense of the Hobbits' single salary?
10. Are the Hobbits allowing themselves any fringe benefits? If so, how much do they cost the business?
11. How much has been spent for new equipment?
12. What is the total amount spent for insurance during the current accounting period? Will this be a recurring expense for the next two accounting periods in the year?
13. What is the total amount spent for utilities and telephone thus far?
14. What is the total amount that the Hobbits have spent for payment of rent? Loan debts? The total of rent and loan debts?
15. How much must they pay in state and federal income taxes?
16. How much will their sales tax be on $4,560 worth of sales?
17. What are the total expenses for Hobbit's Hanger for the first accounting period?

Cash at end of period:

18. Given the cash available and the cash spent, what is the total amount of cash at the end of the first accounting period?

Discussion Questions:

1. Do you think the Hobbits were satisfied when they discovered that they had $568 in cash available for the next accounting period? Should they have had more?

2. Do you think the Hobbits should increase their salaries, based on the cash at the end of the period?

3. Looking at their expenditure for inventory and taking into account that the second purchase is not yet sold, do you think their pricing policy allows sufficient profit? If not, how should they change it? If so, what effect might an increase in prices have on their sales volume?

4. What business strategy would you select for the second accounting period to increase the amount of cash at the end of that period?

WORKSHEET

CASH FLOW STATEMENT

1. Revenues

   a. Cash on hand from previous accounting period $__________
   b. Cash received from prior period sales __________
   c. Cash received from current sales __________
   d. Cash received from assets sold __________
   e. Cash received from loans __________
   f. Other cash received __________

   TOTAL CASH $__________

2. Fixed Expenses

   a. Salaries/wages paid $__________
   b. Fringe benefits paid __________
   c. Rent or mortgage __________
   d. Taxes:
      (1) Income __________
      (2) Property __________
      (3) Payroll __________
   e. Insurance __________
   f. Utilities:
      (1) Telephone __________
      (2) Electricity __________
      (3) Heat __________
   g. Principal and interest on debt __________
   h. Professional fees, i.e., legal and accounting __________

3. Variable Expenses
   i. New inventory purchased __________
   j. New equipment purchased __________
   k. Advertising __________
   l. Transportation
      (1) oil, gasoline __________
      (2) vehicle maintenance __________
      (3) parking, tolls, etc. __________
   m. Freight and postage __________
   n. Miscellaneous __________

   TOTAL EXPENSES __________

TOTAL REVENUES __________

TOTAL EXPENSES -__________

TOTAL CASH AT END OF PERIOD __________

HOMEWORK CASE STUDY
CASH FLOW STATEMENT

Student Instructions: Read through the case problem carefully. Review the cash flow statement form. Re-read the problem and enter the correct figures on the appropriate lines, then answer the decision questions. Again, there are no correct or incorrect answers to these questions. They should be answered according to what you know of the principles of good business practice and what you know about the Hobbits from the two case problems about them.

* * * * * * *

Ed and Lesley Hobbit were disappointed after completing their first accounting period cash flow statement. Since the volume of sales had been brisk during the first four months of business, they had assumed that their profits would be considerably higher than the $568.00 they saw on the first cash flow statement. Re-evaluating their initial business strategy, they decided that they had probably invested too heavily in inventory during the first four months, especially since antique clothing is difficult to convert to cash through a traditional sale of the business' assets. They also decided that their pricing policy had not allowed enough profit margin for each item sold.

The Hobbits were particularly anxious about the scarcity of cash when they were unable to take advantage of an unusual offer to obtain some really valuable inventory at a remarkably low price. They felt, however, that the trend was not irreversible and proceeded to revise their pricing policy and plan for a more controlled acquisition of inventory.

At the end of the second accounting period, after a total of eight months of business, the Hobbits prepared their second cash flow statement for the past four months. In doing so, they found that the total cash sales--which still amount to all sales--came to $10,500. This, of course, increased the sales tax they must pay to $525. They also benefited from a gift of $3,000 from Lesley's aunt during that accounting period. In addition, they raised some badly needed cash by selling one of their glass display cases for $175.

Following their new buying strategy, they acquired new inventory in smaller batches than they had during the first accounting period: in all, they spent $4,100 on merchandise for the whole second period. In this way, they brought in about as much new merchandise each month as they sold during the previous month and so did not stockpile inventory. The Hobbits also decided that they should reduce their personal income to $900 per month for both of them, which then reduces their income taxes somewhat, to $1,152, for the four month period. To counter the reduction in income, however, they have decided to charge the costs of operating and maintaining their car as a business expense, since they use the car to attend antique auctions and sales and to transport merchandise. The car, which has been paid for, is worth $500 at present. The average amount spent on upkeep and fuel in the past accounting period was $192. The utilities have remained stable at $14 per month for telephone and $42 per month for light and heat over the past four months.

Although they have tried to cut expenses to the bone, the Hobbits have had a number of emergencies which have required unplanned or unwelcomed expenditures. During the past accounting period, the old cash register which had come with the building had to be replaced. The cost of a reconditioned cash register was $300. They were also forced to repair a large window and part of the flooring due to damage inflicted by a major storm. For the first time in their business careers, the Hobbits decided to have the work done on credit. The total bill for repairs amounted to $450 and the Hobbits have agreed to pay the contractor who did the work $25 a month until the work is paid for. The final blow was the arrival of the annual car insurance bill, which came to $285 due to an increase in insurance rates. The bill was paid last week. They have of course, continued to repay their original start-up loan at $200 a month and the rent of $300 a month.

As the Hobbits prepare their second cash flow statement they are quite anxious for an improved cash balance, since they feel that they have done everything within their power to increase the balance between expenditures and revenues. Depending on the outcome, they will decide whether or not to continue the business or close it.

HOMEWORK QUESTIONS FOR CASH FLOW STATEMENT

1. What was the Hobbits' cash on hand from the previous (i.e., their first) accounting period?
2. What cash did they receive from the second accounting period's sales?
3. What cash did they receive from assets sold?
4. What other cash did they receive?
5. What was the total amount of cash available for the second accounting period.
6. What was the total cost of new inventory purchased during the second accounting period?
7. What were the salary withdrawals made during the four-month period?
8. How much was spent on equipment?
9. How much did the Hobbits have to pay for insurance?
10. What was the cost of the utilities for the four months?
11. How much did they have to repay on the principal and interest for debts and for rent? What new debt did they incur?
12. What was the amount spent on transportation?
13. What was the amount spent on income taxes for the Hobbits' salary?
14. What was the total amount that had to be paid as sales tax on their merchandise?
15. What were the total expenditures for the second accounting period?
16. Considering the expenditures and the cash available, what is their total cash at the end of the accounting period?
17. Should the Hobbits' car be considered part of their total revenue? Explain.
18. Since the repairs to the building constitute property improvement, why can't these be listed as revenues? Why doesn't the entire cost of the job appear as an expense? In what case would it be listed as an expense?

Decision Questions:

1. Do you interpret the Hobbits' cash on hand at the end of the second period as an improvement over the cash on hand at the end of period one? Consider all the elements, not just the dollar amount difference between the two accounting period. Explain your decision.

2. Looking over the history of Hobbit's Hanger, what do you think contributed to their cash problems? Consider the size of their start-up capital, the nature and amount of fixed expenses, and their business strategy.

3. Do you think that the Hobbits should stay in business? If so, what can they do to improve their cash problems. Explain your answer.

4. If you were a loan officer in a bank, would you give the Hobbits a second loan to stabilize their business? Explain in detail.

WORKSHEET

CASH FLOW STATEMENT

1. Revenues

a. Cash on hand from previous accounting period $________
b. Cash received from prior period sales ________
c. Cash received from current sales ________
d. Cash received from assets sold ________
e. Cash received from loans ________
f. Other cash received ________

TOTAL CASH $________

2. Fixed Expenses

a. Salaries/wages paid $________
b. Fringe benefits paid ________
c. Rent or mortgage ________
d. Taxes:
(1) Income ________
(2) Property ________
(3) Payroll ________
e. Insurance ________
f. Utilities:
(1) Telephone ________
(2) Electricity ________
(3) Heat ________
g. Principal and interest on debt ________
h. Professional fees, i.e., legal and accounting ________

3. Variable Expenses

i. New inventory purchased ________
j. New equipment purchased ________
k. Advertising ________
l. Transportation
(1) oil, gasoline ________
(2) vehicle maintenance ________
(3) parking, tolls, etc. ________
m. Freight and postage ________
n. Miscellaneous ________

TOTAL EXPENSES ________

TOTAL REVENUES ________

TOTAL EXPENSES - ________

TOTAL CASH AT END OF PERIOD ________

PART D: IT'S YOUR BUSINESS (IX)

The final phase of the unit calls for student contact with an actual lending institution. The extent of this contact, however, will depend largely on whether individual students are ready to make an actual loan application or whether they are still "practicing." When the in-class work has been completed, distribute students' pages for "It's Your Business (IX)."

1. Identify several possible lending institutions from which they might obtain a loan. These should be visited to ascertain differences between lending policies, interest rates, special loan availability for small businesses, and special services provided by the institution. Each project business should select one lending institution and explain in written form why they made that choice.

2. Set up a pre-application interview with the institution they have chosen to determine the precise requirements for obtaining a loan and to obtain all necessary application forms. If the student is not pleased at this point with the institution or the loan officer, he or she should find another institution and repeat the application process.

Project Report

3. Prepare a loan application package that conforms to the requirements of each institution. Using the in-class material as a basis, the students should complete all the forms that are required. Some students may require additional assistance especially if bank forms differ somewhat from forms used in class. It may therefore be desirable to set aside extra time for these students. Another resource is the project business' advisors.

4. Submit the completed loan application "package" to the instructor for evaluation. Students should be instructed to produce neat and correct forms which may be read quickly and easily.

5. Students who intend to apply for a loan should then arrange an appointment with the loan officer to initiate the actual loan application process.

6. If you wish you may organize a student "loan committee" to extend student learning still further. Ask three students to volunteer for the loan committee, and one project business to volunteer as a loan applicant, telling them that they will go through the approval (or non-approval) process in class. Enough copies of the project business' loan application should be prepared for everyone to follow the deliberation.

7. Finally, hold a class meeting to discuss the actual experience of applying for a loan. For students who have gone through the formal application process, the discussion will be more detailed. For students who have not actually applied for a loan, these experiences should be instructive.

The class meeting may be conducted as a round table discussion of student experiences in the course of the loan application process. The discussion should provide further direction for those class members who have not yet obtained a loan and may help those who will obtain another loan in the future. The discussion may focus on any aspect of the application process. For example:

- Areas of greatest difficulty in the application process
    - -- finding an appropriate lending institution
    - -- completing the forms
    - -- participating in the interview
- Differences between types of lending institutions with respect to:
    - -- requirements for obtaining a loan
    - -- amount (maximum and minimum of the loan)
    - -- interest rates
    - -- repayment plans
    - -- special services offered
    - -- competency and attitude of the loan officer

STUDENT INSTRUCTIONS

The process of obtaining a loan involves many elements with which you are now familiar. These include aspects of planning, marketing, completing financial forms, and the overall principles of business. Some banks may have requirements which are new or unfamiliar to you, but you are prepared to undertake the procedure yourself. The following presents a step-by-step guide for completing the loan application process from beginning to end. If you are not planning to submit your loan package to a bank at this time, your project report will consist of most of these steps; if you intend to make a formal application for a small business loan now, you will complete them all.

1. Lending institutions vary according to the requirements for a loan, the loan application package contents, the location of the institution, the interest rate on the loan, the types of loans which are given, and the services which the lending institution can provide. You must decide what is best for you, given the type of business you wish to start and what characteristics are important to you. There are several types of lending institutions you may wish to consider:

   - A commercial bank usually provides a number of banking services to customers, but often has a relatively high rate of interest on the loan principal.

   - A credit union or cooperative savings association provides low interest loans to its members. A credit union is fairly specialized and usually does not provide a broad range of banking services compared to a commercial lending institution.

   - A Small Business Administration regional office has a restricted amount available for new business loans; the SBA loans are awarded on a "first come, first served" basis. When the amount available is gone, no further loans are made for the fiscal year. SBA loans are typically fairly difficult to get unless the applicant has a very good credit rating from past business loans or has significant collateral to put up to protect the SBA's investment.

   - A savings and loan association, by law, cannot grant a business loan of any sort, but can provide a short term personal loan to be used to start a business. In most cases, this type of loan would be used to supplement other loans and owner equity, rather than serve as the basis for the entire loan.

Initial information on the specific characteristics of each type of institution may be obtained by telephone, by a personal visit to an institution, through advertisements, and by asking others who have had experience in obtaining a small business loan.

2. When you have identified a particular lending institution that you believe meets your requirements, make a pre-application appointment for an interview with a loan officer. During this interview, the loan officer should provide you with detailed information about loan requirements, interest rates, repayment options, and answer any other questions you may have. Plan your questions before the meeting. If the institution appears to meet your needs, ask for copies of the forms which must be completed for an actual loan application. If, however, you find that the institution does not meet your requirements or the loan officer indicates that you would have a poor chance of obtaining a loan, arrange a pre-application interview at another institution which may be more satisfactory.

Project Report

3. Complete the loan application forms and other information which you need to apply for a loan. Be sure to allow enough time for this activity, since it is crucial to the application process. It is at this point that you will put down on paper all the planning, research, and estimating you have done. Remember that the application should reflect your ability to organize and carry out detailed activities and should convince the loan officer of the soundness of your reasoning and information; it is one important indication of your ability to succeed in business and therefore to repay your loan.

4. Submit the loan application package to the instructor for review, making sure that everything is complete and orderly. The instructor will be assessing your package from much the same perspective as will the loan officer. You may also wish to submit a copy of the loan package to your advisor for his or her suggestions.

5. Review the comments made by your instructor (and your advisor) and, where you feel it is applicable, revise the original package accordingly. From this point on, however, you alone must decide what should be included and how the contents should be expressed.

6. If you are planning to obtain a loan now, arrange for an interview with the loan officer you first consulted. This meeting will focus on your application package and may involve questions that the loan officer has about your plans or your background. The loan officer will tell you when a decision can be expected.

7. The final class for the unit will consist of a discussion session, during which members of the class can talk about their application experiences and share information.

APPENDIX

GLOSSARY OF FINANCIAL TERMS

"ACID TEST" RATIO - Cash plus those other assets which can be immediately converted to cash should equal or exceed current liabilities. The formula used to determine the ratio is as follows:

$$\frac{\text{CASH plus RECEIVABLES (NET) plus MARKETABLE SECURITIES}}{\text{CURRENT LIABILITIES}}$$

The "acid test" ratio is one of the most important credit barometers used by lending institutions, as it indicates the ability of a business enterprise to meet its current obligations.

AGING RECEIVABLES - A scheduling of accounts receivable according to the length of time they have been outstanding. This shows which accounts are not being paid in a timely manner and may reveal any difficulty in collecting long-overdue receivables. This may also be an important indicator of developing cash flow problems.

AMORTIZATION - To liquidate on an installment basis; the process of gradually paying off a liability over a period of time, i.e., a mortgage is amortized by periodically paying off part of the face amount of the mortgage.

ASSETS - The valuable resources, or properties and property rights owned by an individual or business enterprise.

BALANCE SHEET - An itemized statement which lists the total assets and the total liabilities of a given business to portray its net worth at a given moment in time.

BREAK-EVEN ANALYSIS - A method used to determine the point at which the business will neither make a profit nor incur a loss. That point is expressed in either the total dollars of revenue exactly offset by total expenses (fixed and variable); or in total units of production, the cost of which exactly equals the income derived by their sale.

CAPITAL EQUIPMENT - Equipment which you use to manufacture a product, provide a service, or use to sell, store, and deliver merchandise. Such equipment will not be sold in the normal course of business, but will be used and worn out or be consumed as you do business.

CASH FLOW - The actual movement of cash within a business: cash inflow minus cash outflow. A term used to designate the reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization, and extraordinary charges to reserves, which are bookkeeping deductions and not actually paid out in cash. Used to offer a better indication of the ability of a firm to meet its own obligations and to pay dividends than with the conventional net income figure.

COLLATERAL - Something of value given or held as a pledge that a debt or obligation will be fulfilled. A diamond or a house could be put up as collateral by a loan application. If the loan is not repaid, the lender (a bank, an individual, etc.) may seize the house or diamond to sell or to keep.

CORPORATION - An artificial legal entity created by government grant and endowed with certain powers; a voluntary organization of persons, either actual individuals or legal entities, legally bound together to form a business enterprise.

CURRENT ASSETS - Cash or other items that will normally be turned into cash within one year, and assets that will be used up in the operations of a firm within one year.

CURRENT LIABILITIES - Amounts owed that will ordinarily be paid by a firm within one year. Such items include accounts payable, wages payable, taxes payable, the current portion of a long-term debt, and interest and dividends payable.

CURRENT RATIO - A ratio of a firm's current assets to its current liabilities. The current ratio includes the value of inventories which have not yet been sold, so it is not the best evaluation of the current status of the firm. The "acid test" ratio, covering the most liquid of current assets, provides a better evaluation.

DEAL - A proposal for financing business creation or expansion; a series of transactions and preparation of documents in order to obtain funds for business expansion or creation.

DEBT CAPITAL - The part of the investment capital which must be borrowed from a bank, the Small Business Administration, or other formal lending institutions. The remaining portion of the investment capital is owner or equity capital.

DEPRECIATION - A reduction in the value of fixed assets. The most important causes of depreciation are wear and tear, the effect of the elements, and gradual obsolescence which makes it unprofitable to continue using some assets until they have been exhausted. The purpose of the bookkeeping charge for depreciation is to write off the original cost of an asset (less expected salvage value) by equitably distributing charges against operations over its entire useful life.

ENTREPRENEUR - An innovator of a business enterprise who recognizes opportunities to introduce a new product, a new productive process, or an improved organization, and who raises the necessary money, assembles the factors of production, and organizes an operation to exploit the opportunity.

EQUITY - The monetary value of a property or business which exceeds the claims and/or liens against it by others.

EQUITY CAPITAL - The capital which the entrepreneur invests in the business; equity capital may be obtained from personal savings, community development grants and cash gifts. It is capital that does not have to be repaid.

INCOME STATEMENT - The record showing how much the business makes or loses during each year. It is important to save this document each year, as eventually the income statements over several years will serve as an excellent predictor of how the business will do in the future. (Also known as the PROFIT AND LOSS STATEMENT.)

MORTGAGE LOAN - A loan that is obtained to pay all or part of the costs required to buy or lease a building.

NET WORTH - The owner's equity in a given business represented by the excess of the total assets over the total amounts owing to outside creditors (total liabilities) at a given moment of time. Also, the net worth of an individual as determined by deducting the amount of all his or her personal liabilities from the total value of his or her personal assets.

OWNER CAPITAL - See equity capital

OWNER EQUITY - The amount of money left over when liabilities are subtracted from assets. It is the amount that may be considered the owners, rather than the businesses' or the company's creditors.

PARTNERSHIP A legal relationship created by the voluntary association of two or more persons to carry on as co-owners of a business for profit; a type of business organization in which two or more persons agree on the amount of their contributions (capital and effort) and on the distribution of profits, if any.

PRO FORMA - A projection or estimate of what may result in the future from actions in the present. A pro forma financial statement is one that shows how the actual operations of the business will turn out if certain assumptions are achieved.

PROFIT - The excess of the selling price over all costs and expenses incurred in making the sale. Also, the reward to the entrepreneur for the risks assumed by him or her in the establishment, operation, and management of a given enterprise or undertaking.

SOLE PROPRIETORSHIP or PROPRIETORSHIP - A type of business organization in which one individual owns the business. Legally, the owner is the business and personal assets are typically exposed to liabilities of the business.

TAKEOVER - The acquisition of one company by another company.

TARGET MARKET - the specific individuals, distinguished by socio-economic, demographic, and/or interest characteristics, who are the most likely potential customers for the goods and/or services of a business.

TERM LOAN: See Current Liabilities.

WORKING CAPITAL NET - The excess of current assets over current liabilities. These excess current assets are available for carrying on business operations.

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